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New Mexico Tax Research Institute
Presented to the

David Abbye, Director, LFC
Representative Patricia Lundstrom, Vice Chair, LFC

Post-Session Fiscal Report
are nearing pre-recession employment peak.

Growth rates are rising quickly. Jobs levels
Lost decade of job and revenue growth, but
per cent average to 35 percent in FY19
growing dependence on direct revenues from

the oil and gas industry: increased from 26
Current trends in oil production are surpassing the previous estimates.

- Could mean annual NM production of over 400 million barrels by 2023.
- Double in the next 5 years.
- Unclear when production will level off.
- 2019:
  - About 20 percent from 2012 to 2019.
  - Compound annual growth rate of 810 thousand barrels per day.
  - First quarter of 2019 was about average oil production for the day.
  - Was 577 thousand barrels per day.

Source: OCD, LFPRIS.
North Dakota and New Mexico Oil Production (January 1981 to February 2019)

Source: Energy Information Administration
About $2 million for the General Fund
- Each additional 10 billion cubic feet of natural gas generated
  40 million barrels above the December 2018 projection
  NM is currently on track to produce about 290 million barrels in FY19.

- Each additional million barrels of oil generates about $3
  $0.10 change in the annual average NM price of natural gas
  an $18 million impact on the General Fund
  a $1 change in the annual average NM price of oil has about
taxes and federal royalties.

Based on 2019 direct oil and gas revenues (production

New Mexico?

What do changes in production prices mean for
HEADING INTO THE 2019 SESSION
narrowing taxpayer base
- Tax reform: gross receipts tax rates high with behind and benefits cost increasing
- Total compensation x pension solvency: pay falling responsibilities
  - Medical Growth: crowding out effect on state education completion rates
  - Educational outcomes: early childhood to higher
  - Fiscal stability
- Pressing Issues.

State General Obligation bond rating downgraded twice in last two years. Moody's Report Laggs.
These pressing issues
From a fiscal point of view, the Legislature needed to focus

100 buckets to 3 fires
New Mexico needed to take
Public Education

Legislative Focus:

- Increased education funding and support through grants for school districts.
- Expanded career and technical education programs.
- Increased teacher salaries and professional development.
- Funding for school buses, instructional materials, and extended learning time for at-risk students.
- Legal action against the state's funding formula.

Recurring budget of $3.2 billion for FY20, an unprecedented $448 million increase from the prior year.
Early Childhood Education

Legislative Focus:

- Early childhood education and care services are funded for early childhood education and care services.
- Over 80 percent of 4-year-olds are enrolled in early childhood programs.
- Over $438 million for early childhood programs, a $125 million increase from the prior year.
- Legislative establishing a new $20 per year K-5 Plus Initiative, early school year.
- Excluding the extended school year.

New Mexico 4-Year-Old Service Capacity: Care and Education

Fy20 Fy19 Opbd Fy21 Fy22 Fy23

Population

Title I & Head Start

Childcare

Prekindergarten

Head Start

Fy23 Fy22 Fy21 Fy19 Opbd 0

60% of Population

80% of Population

Total 4-Year-Old

Sources: Fy 97, Fy 98, DoH
Economic Development

Legislative Focus:

- Economic Development Department received a $200 thousand appropriation to establish the new division in FY20.
- Development, tourism, and ecotourism created by SB462; intended to increase outdoor-based economic development.
- Outdoor Recreation Division
  - $15 million more in revenues exceed the forecast.
  - GA added $60 million in LEDA funding, with a contingency for GAA.
  - Ranging $6,000,000 to $30,000,000 per job.
- The program has created about 3,250 jobs since FY16 at costs ranging from $6,000 to $30,000 per job.
- Authorities State Reimbursement to Qualifying Local Governments for Certain Infrastructure Development (LEDAs).
- Local Economic Development Act (LEDA)
  - Special appropriation of $5 million.
  - Operating budget increased to $5 million.
- creation of JTP has supported the creation of over 46 thousand jobs since its creation.
  - Restrictions and job requirements.
  - JTP grants subsidize wages for employees, with certain restrictions.
- Job Training Incentive Program (JTP)
State Employee Compensation: +4%

Excellence: +$1 million

Higher Education Department, Center for Technical

Corrections Transition/Living: +$2.2 million

Developmental Disabilities Waiver: +$20 million (13%)

State Parks: +$500 thousand (7%)

Oil Conservation Division: +$800 thousand (16%)

Tourism and Marketing: +$3 million (26%)

CVRD Child Protective Services: +$4 million (8.2%)

Robust Increases for Many Other Priorities
The session ended with a $3.32 million FY20 Recurring Budget surplus. Even with 12 percent growth in recurring appropriations, the fund

- Premium returns on investments (revenues in excess of the 5-year average to the rainy day fund)
- SB401 transfers federal mineral leasing (oil and gas royalties and fees)
- HB393 allowed interest earnings to accumulate in the fund
- and build a true rainy day fund
- Follow-up to 2017 legislation to manage oil and gas revenue volatility

Strengthening the "Rainy Day Fund"

- Settlements Permanent Fund, State Support Reserve, etc.
- Backfilling other State Funds and Fund balances (e.g., Tobacco
- Projected 21% reserves in FY19 and 20% in FY20

Increasing Fiscal Stability: Legislative Focus
Rising construction costs pose a risk to project completion

unsuccessful efforts to increase capital outlay transparency, including publicizing

- Government's statewide: seven of that division's 41 positions are vacant
- DPA's Local Government Division will oversee 46 new projects for local

- PDE's capital outlay bureau only has two PTE
- PDE will oversee 267 new projects at traditional public schools and charter schools;

- Currently, two of the division's seven project manager positions are vacant
- GSD's Facilities Management Division oversees most state agency projects;

management and oversight agencies at the number of projects may exceed project management capacity at projects with balances of $639.9 million; the significant increase in State agencies currently oversee 1,608 outstanding capital outlay

through a defined project selection procedure projects were reviewed and vetted by LFC and DPA, many did not go

While $385 million of General and other state funds for "statewide"

Capital Outlay Concerns
Nonrecurrent (GAA Section 9)

United States at full employment
Again, concerns about capacity of road-building industry when the
projects
Governments, state-funded construction projects, and major investment
Significant additional recurrent and nonrecurrent funding for local

Road Funding - Another Game Changer
Local increments to the compensating tax, and hospital GRT revenues
- Largest revenue gain from applying local GRT increments to internet sales, applying

$40 million for local road funds
$111 million recurring to local operating funds, not including the additional
significant boost to local government revenues beginning in FY22, adding
FY19 revenues
- Effective in FY21, continued on FY20 revenues being no more than 5 percent above

$315 thousand for joint filers ($210 thousand for single filers)
Likely personal income tax increase to 5.9 percent of taxable income over

enacted internet tax reform to bring remote sales (including third-party

enacted hospital tax reform to bring nonprofit and government hospitals

virtually no net change in general fund tax revenues in FY20 and FY21

Tax Policy
Legislative Focus:
General fund loss of about $50 million in FY22 and beyond.

Net effect of all 2019 revenue legislation is a recurring

- Prioritizing issues, etc.
  - Expediting, lowering CTR rates, addressing tax
  - Broadening the CTR base and eliminating certain tax

- Significant tax reform initiatives left undone (e.g.:

- Return on the dollar
  - For economic development, despite evidence of about a 40 cent
    - Likely the most significant state investment ever in a single industry

- That would have been paid out under the existing cap
  - General fund over the next five years (in addition to the $250 million
  - Film credit changes estimated to cost over $500 million to the

- Increase in film credit

Revenue gains of the omnibus tax bill (HB6) offset by

Tax Policy

Legislative Focus:
- U.S. Gross domestic product forecasts transition from above-trend curve, meaning very short rates rose above longer 10-year note rates
- Recession signals in the bond markets: Recent inversion in the yield
  Recession outlook

Dependence on oil prices and production activity
- Revenues could come in $1.3 billion above or below projections
- Stress tests of the December 2018 consensus forecast showed PY20 activity
- About 80 percent of all PY19 revenue growth due to oil and gas

Oil production soaring

PY19 year-to-date revenues running significantly ahead of the

Fiscal Outlook
Worth looking at a state like North Dakota

- Fiscal stabilization
- Gross receipts tax pyramid, high rates, narrowing base
- Selecting and managing capital outlay projects
- Unfunded pension liability

Unfinished Issues

and complete construction projects?

peaks, can the state hire workers to increase government services

With U.S. at full employment and N.M. nearing employment

- Medicaid
- Early Childhood
- Public Schools

Continued pressure to increase spending on many fronts, notably

Expenditures