Revenue Diversification in New Mexico

Sustainable Economy Task Force

August 2024

Sections

1   **Issue and Framework –Harvard Taubman Fellow, Juan Carlos Orrego Zamudio; EDD Just Transition Advisor Kayla Lucero-Matteucci**

2   **Economic and Revenue projections – CREG, Dr. Pedro Clavijo & Dr. Leonardo Delgado**

3   **Transportation-specific themes – DOT, Dr. Michael Morrison**

4   **Permanent Funds relevance – SIC, State Investment Officer Jon Clark**

5   **State Land Revenue diversification – SLO, Commissioner Stephanie Garcia Richard & Craig Johnson**

Sections

1 **Issue and Framework**

2 **Economic and Revenue projections**

3 **Transportation-specific themes**

4 **Permanent Funds relevance**

5 **State Land Revenue diversification**

# Avenues to Assuring Long-term State Revenue

1 **Economic diversification and growth results in added revenues**

2 **Permanent funds yield principal**

3 **Economic efficiency and improvements in fiscal policy systems and structures leads to increased savings**

⚠️ Note: local government finance will vary significantly, and the needs and challenges of local governments are vastly different.
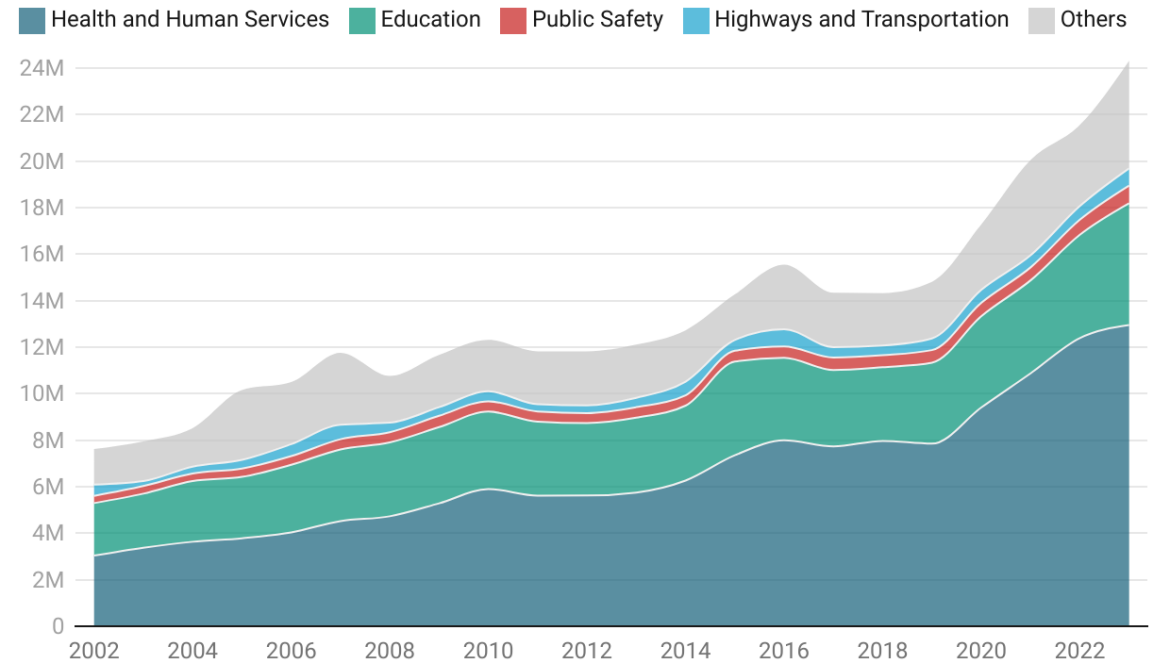
New Mexico has experienced revenue growth from oil and gas in recent decades

Governmental Funds' Revenues Evolution
(In thousands)
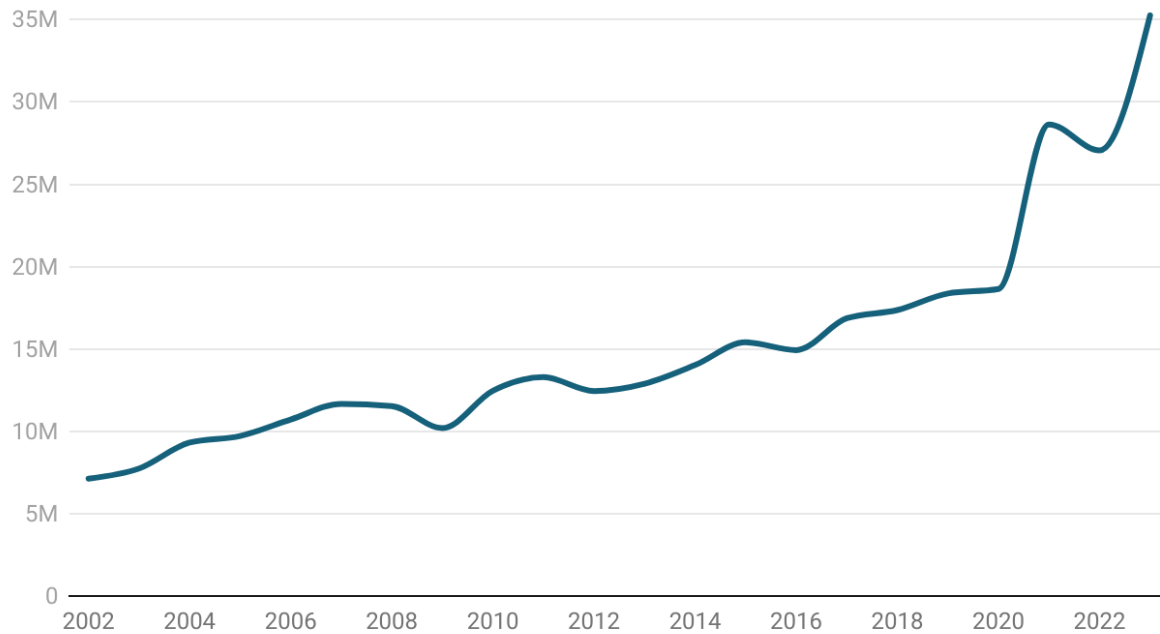
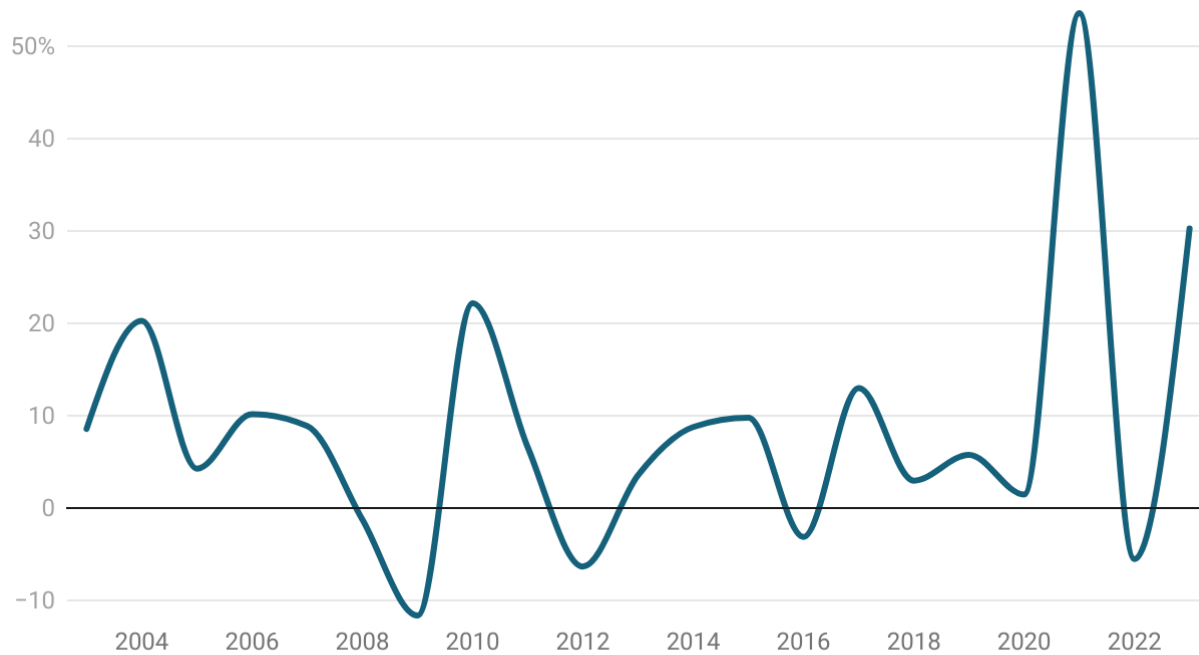Source: New Mexico's Annual Financial Reports • Created with Datawrapper

Governmental Funds' Expenditure by category
(In thousands)

■ Health and Human Services ■ Education ■ Public Safety ■ Highways and Transportation ■ Others

Source: New Mexico's Annual Financial Reports • Created with Datawrapper

The Roller Coaster – Governmental Funds' Revenues growth rate

Source: New Mexico's Annual Financial Reports • Created with Datawrapper

Revenue volatility score

As an example, the 15-years score of 7.1 means that, from fiscal 2008 to 2022, the growth rate of total tax revenue across the states typically fluctuated 7.1 percentage points above or below its average.

■ 15-years volatility (2008-2022) ▢ 5-years volatility (2018-2022)

General	15-years volatility (2008-2022)	5-years volatility (2018-2022)
50 states	7.1	8.4

Top-6	15-years volatility (2008-2022)	5-years volatility (2018-2022)
Alaska	51.6	62.3
North Dakota	21.2	21.4
Wyoming	14.5	15.3
California	13.4	18.9
Utah	13.4	20.8
New Mexico	11.9	14.9

| Bottom-6	15-years volatility (2008-2022)	5-years volatility (2018-2022)
Wisconsin	4.8	4.7
South Dakota	4.6	5.3
Kentucky	4.4	5
Maryland	4.3	6.3
Arkansas	4	5.9
Iowa	3.9	4.3

Pew's volatility scores measure the variation in year-over-year percentage changes over the five- and 15-year periods ending in fiscal 2022, based on a calculation of standard deviation. A low score means that revenue growth rates were similar from year to year, and a high score indicates that growth rates varied more dramatically.

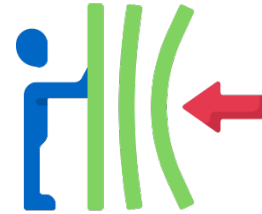Source: The Pew Charitable Trusts • Created with Datawrapper

New Mexico can prepare for rainy days with a combination of smart fiscal policy and economic diversification

Smart fiscal policy
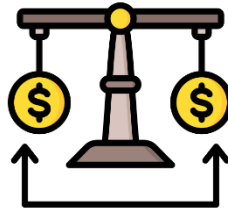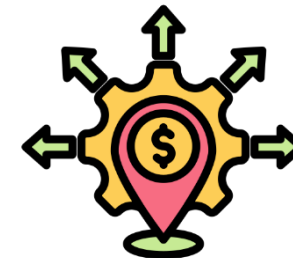
Fiscal stability

Fiscal resilience

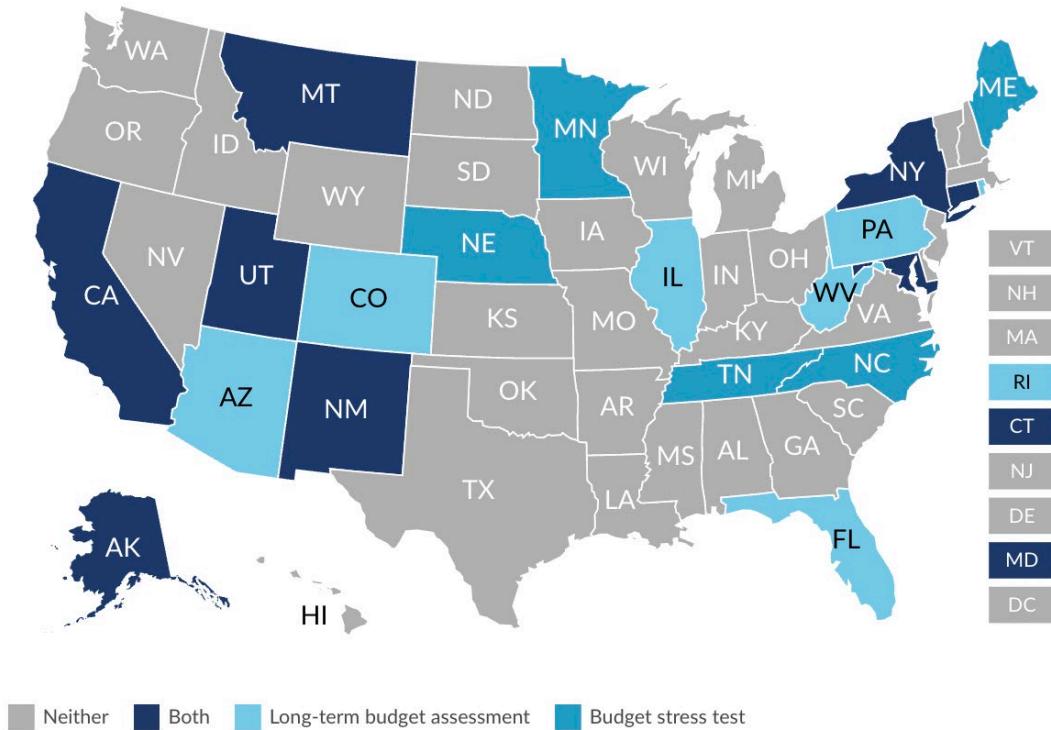**Fiscal transparency**

Economic diversification
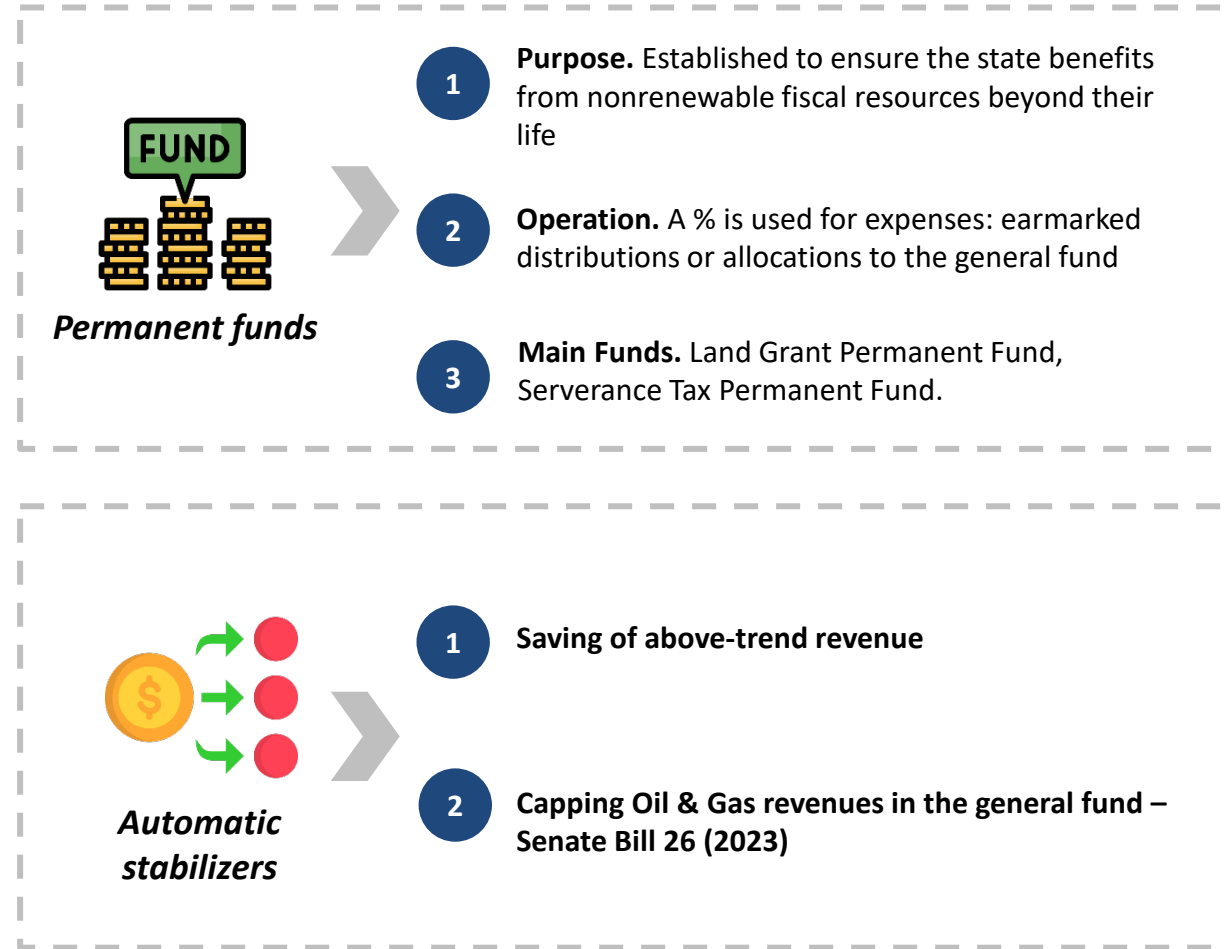
Broad-based economy

Multisectoral regions

Attaining fiscal stability entails proactive planning and mitigating budget volatility
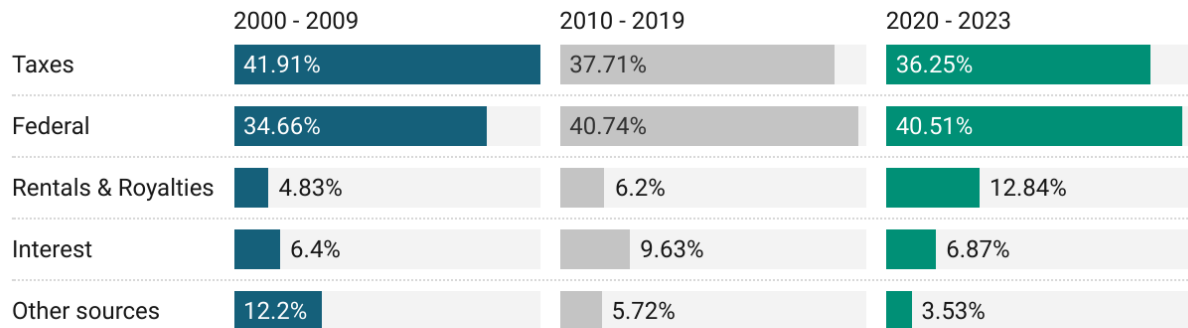
Distribution of fiscal analysis tools (2018-2023)

Neither — Both — Long-term budget assessment — Budget stress test

Source: Pew analysis of state documents and information provided by state officials

Fiscal stabilization tools

Permanent funds

1. **Purpose.** Established to ensure the state benefits from nonrenewable fiscal resources beyond their life

2. **Operation.** A % is used for expenses: earmarked distributions or allocations to the general fund

3. **Main Funds.** Land Grant Permanent Fund, Serverance Tax Permanent Fund.

Automatic stabilizers

1. Saving of above-trend revenue

2. Capping Oil & Gas revenues in the general fund – Senate Bill 26 (2023)

Fiscal resilience depends on diverse revenue sources, sustainable spending choices, and saving for unforeseen challenges

Revenue Streams – Governmental Funds Revenues' Composition

	2000 - 2009	2010 - 2019	2020 - 2023
Taxes	41.91%	37.71%	36.25%
Federal	34.66%	40.74%	40.51%
Rentals & Royalties	4.83%	6.2%	12.84%
Interest	6.4%	9.63%	6.87%
Other sources	12.2%	5.72%	3.53%

The figures are average shares for each time frame

Source: New Mexico's Annual Financial Reports • Created with Datawrapper

Emerging topics

Rainy day fund

1. **General Fund Reserves.** The largest account "Tax Stabilization Reserve".

2. **Balance.** Estimated in $3.3 billion for FY 2025 (NASBO, 2024) , which represents 32.2% of recurring expenditures.

Climate damages

1. **Relevance.** Assuming social cost of carbon of ~$200/ton (Rennert et al., 2022), damages can be greater than costs of fossil fuel industry decline (Raimi, 2024).

2. **NM case.** Approximately 1% of the US greenhouse emissions (Climate Change Task Force, 2019). If the US emissions are ~5,000 MMT, that implies that annual damages are around $1 trillion (Raimi, 2024)
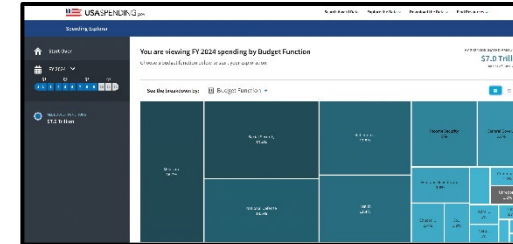
Fiscal transparency means engaging citizens in deciding how to spend on their true needs
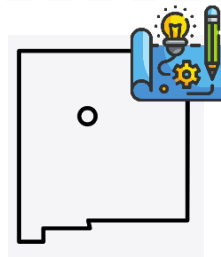

Open fiscal data for the people
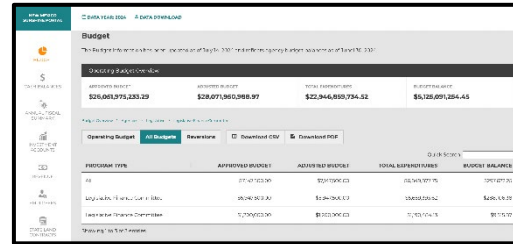
NM Portal

US Portal

Participatory budgeting

ABQ piloting program

Rhode Island for Health Investments

A diversified economy has multiple strong sectors that enhance revenue generation

New Mexico's economic composition

Together, these eight main sectors account for approximately 70% of each dimension. The Government is the clear dominant sector in the three. Real estate and Mining stand out for their large share in GDP, but significant smaller shares in jobs and labor income. Similarly, Retail Trade and Accommodation shine in Job share, but they have less predominance in the other dimensions. Professional services and Health Care distinguish themselves for their consistency.

Dominant	2022 GDP Share	2022 Jobs Share	2022 Personal Income Share
Government	23.68%	17.54%	24.75%

Main - 1st tier	2022 GDP Share	2022 Jobs Share	2022 Personal Income Share
Professional, scientific, & technical services	9.09%	7.89%	11.67%
Health care & social assistance	7.85%	12.23%	11.7%
Retail trade	5.32%	9.84%	6.38%

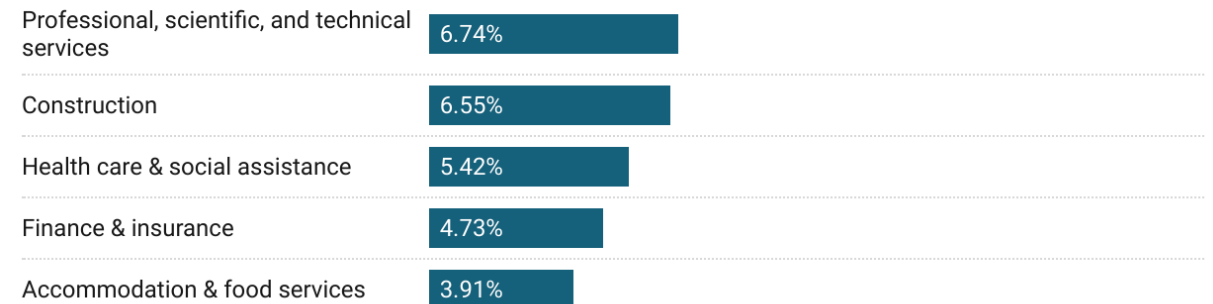| Main - 2nd tier	2022 GDP Share	2022 Jobs Share	2022 Personal Income Share
Real estate and rental & leasing	12.13%	4.3%	3.03%
Mining and oil & gas extraction	8.19%	2.46%	4.34%
Construction	3.66%	5.94%	6.25%
Accommodation & food services	3.61%	8.1%	4.62%

Revenue contribution by sector
(2022 share of general fund)

It is a conservative estimate of Oil & Gas contribution to the General Fund. CREG has a more robust estimation for the sector. The purpose was to show the sectorial contribution landscape.

Main contributors

Mining, and oil & gas extraction	21.03%
Government	17.41%
Retail trade	13.49%

2nd-tier contributors

|	
Professional, scientific, and technical services	6.74%
Construction	6.55%
Health care & social assistance	5.42%
Finance & insurance	4.73%
Accommodation & food services	3.91%

The broad-base economy must not overlook potential local disparities and reliance on a single source

Economic activity – dominant sector's share of GRT
(2023)

Retail trade dominates the GRT revenue in 24 counties. Construction prevails in five counties (Harding, Mora, Sandoval, Sierra and Construction); Mining in Eddy and Lea; Utilities in Union; and Adm. & Waster Management in Los Alamos.

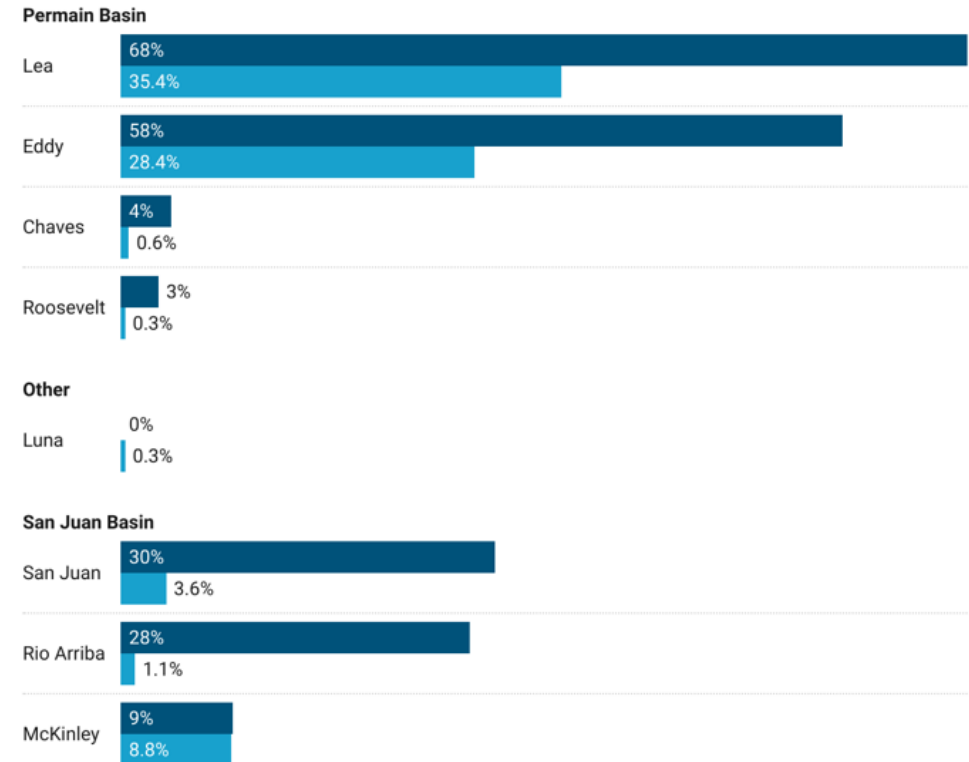< 27.46%   27.46%–33.36%   33.36%–50.51%   ≥ 50.51%
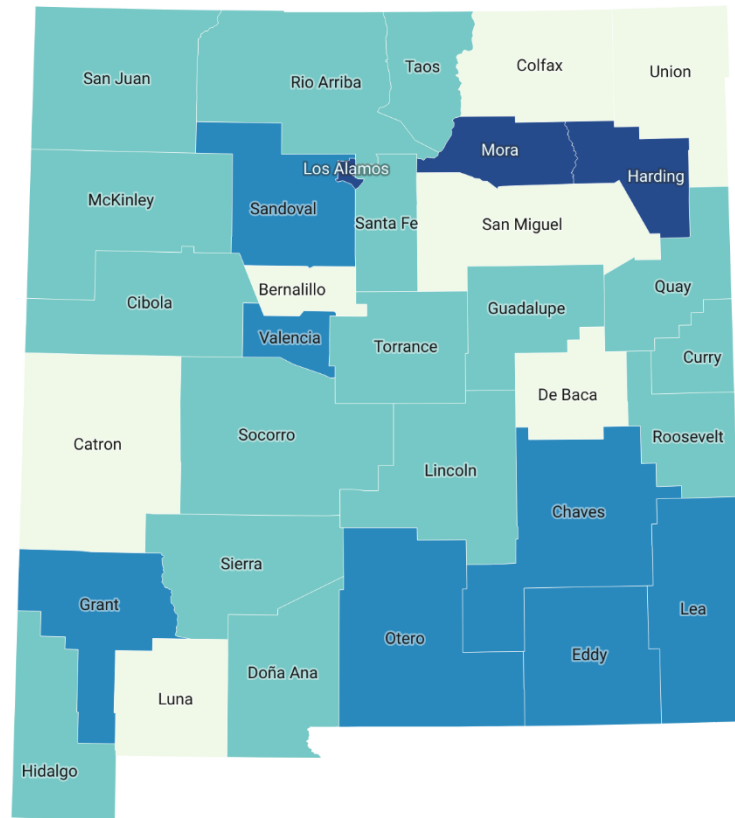
Source: EDD estimations • Created with Datawrapper

"Fossil Fuel" counties - extractive industries' share in tax revenues *(2021)*

Local property tax revenues include those flowing to counties, school districts, municipalities, and other taxing entities. Gross Receipts Tax (GRT) revenues include only the portion to counties.

Share of Local Property Tax   Share of GRT County government

Permain Basin

Lea: 68% / 35.4%
Eddy: 58% / 28.4%
Chaves: 4% / 0.6%
Roosevelt: 3% / 0.3%

Other

Luna: 0% / 0.3%

San Juan Basin

San Juan: 30% / 3.6%
Rio Arriba: 28% / 1.1%
McKinley: 9% / 8.8%

Source: (1) Raimi 2024, (2) New Mexico's Economic Development Department • Created with Datawrapper

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# Evolution of New Mexico's main economic variables

Gross Domestic Product (GDP)
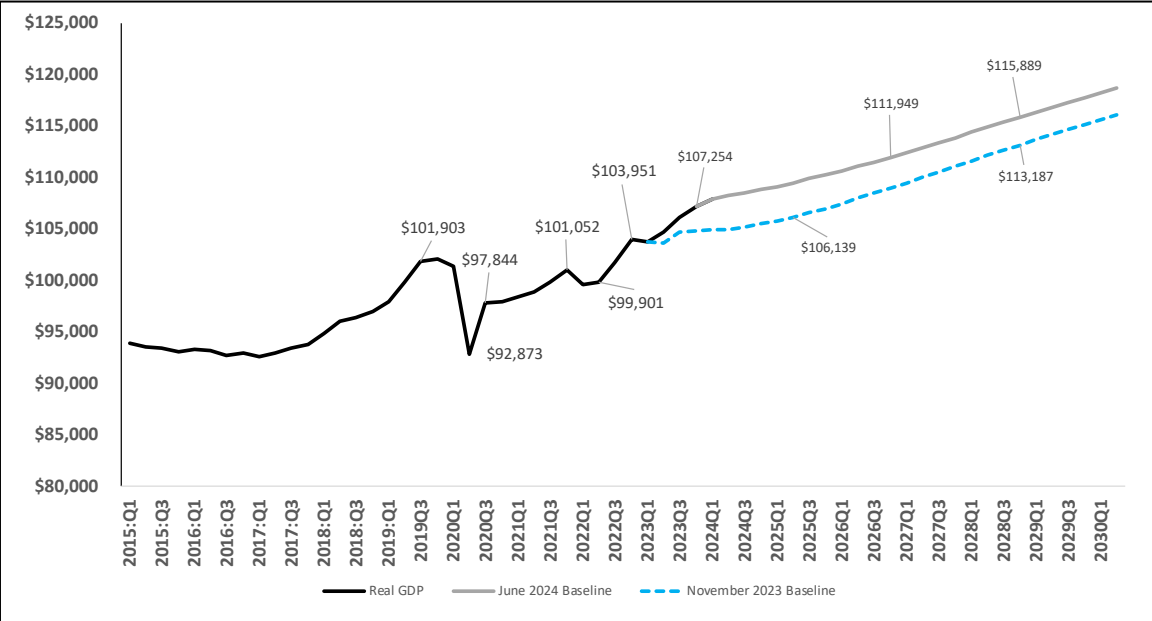
Source: Moody's November 2023 and July 2024 Baseline Scenario vs. Historical Values from the Bureau of Economic Analysis

① New Mexico's recent GDP actuals have outpaced the November 2023 baseline estimate.

② The forecasted annualized growth rates through CY24 average 1.5%, slightly lower than the national annualized rate of 1.6%
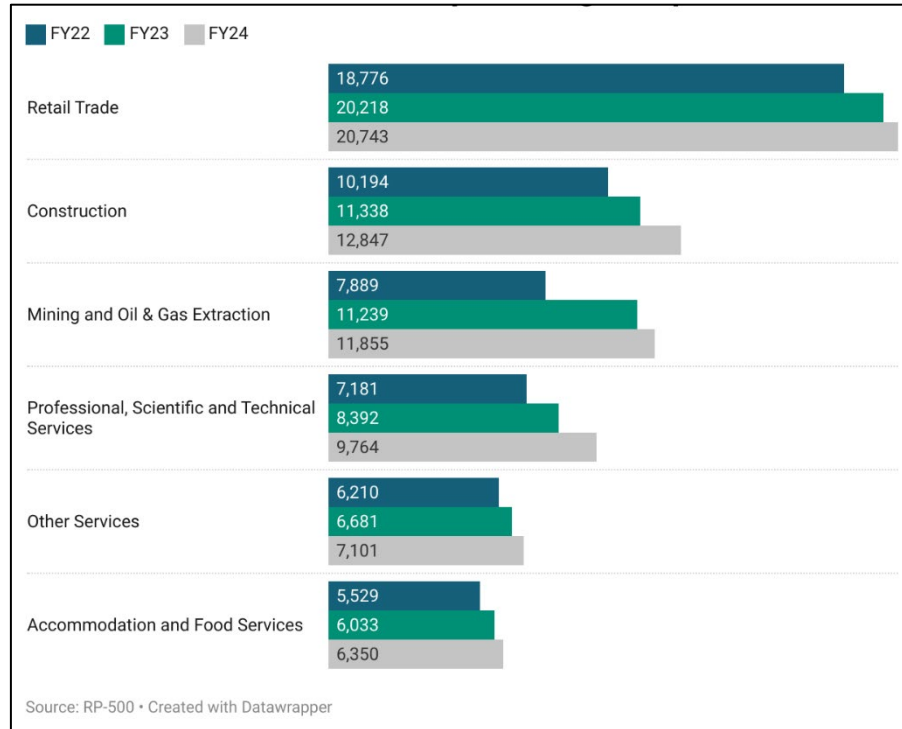
Total Non-Farm Employment
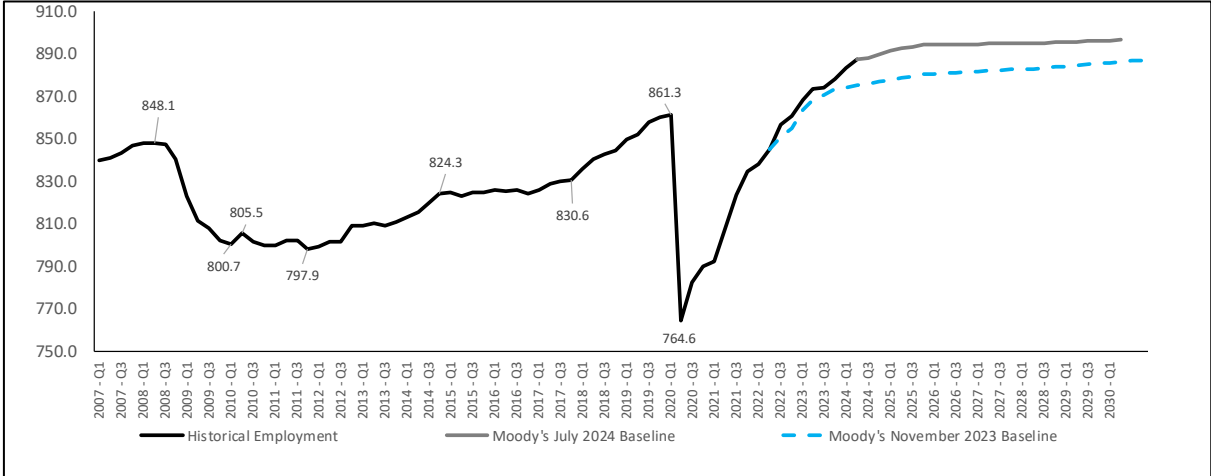
Source: Bureau of Labor Statistics

① Forecasted New Mexico employment upward from the previous estimate.

② Employment grew by 2.74% in CY 2023 with projected growth slowing to 1.6% in CY 2024 and 0.6% in CY 2025 and 0.2% in CY 2026

Gross Receipt Tax (GRT) Outlook

Matched Taxable Gross Receipts Top-6 Industries

FY22 **FY23** **FY24**

Industry	FY22	FY23	FY24
Retail Trade	18,776	20,218	20,743
Construction	10,194	11,338	12,847
Mining and Oil & Gas Extraction	7,889	11,239	11,855
Professional, Scientific and Technical Services	7,181	8,392	9,764
Other Services	6,210	6,681	7,101
Accommodation and Food Services	5,529	6,033	6,350

Source: RP-500 · Created with Datawrapper

Net GRT Revenue ($ Millions)

Source: Aug 2024 CREG Estimates

GRT Forecast Dec 2023 (legis adj)   GRT Forecast Aug 2024
Y-o-Y Growth (right axis)

1 Retail trade is growing thanks to solid consumer spending, while OGAS grew by 5%, down from 44% growth in FY23.

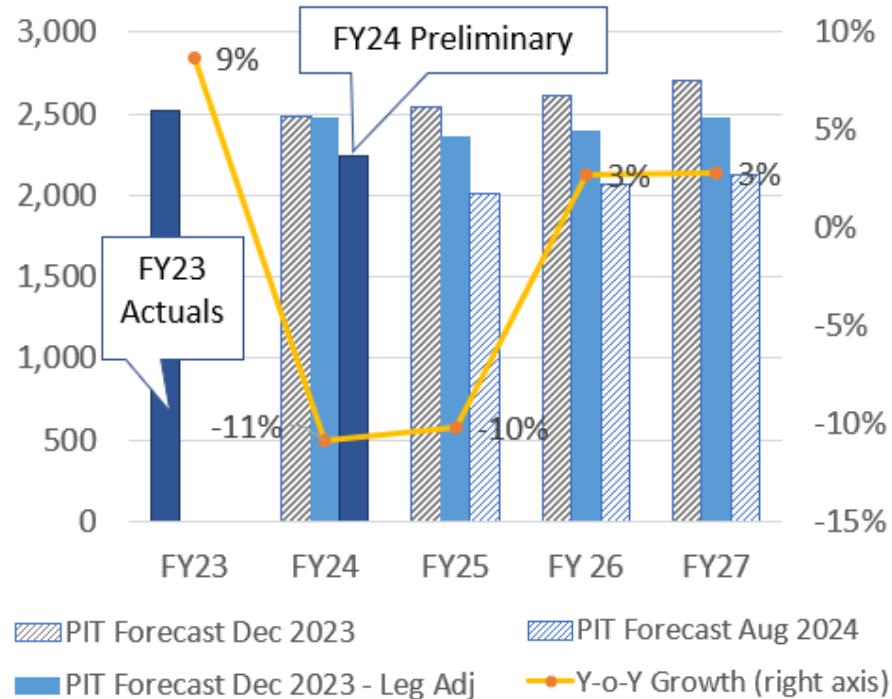**2** Construction and Professional, Scientific and Technical Services are among the most dynamic sectors.
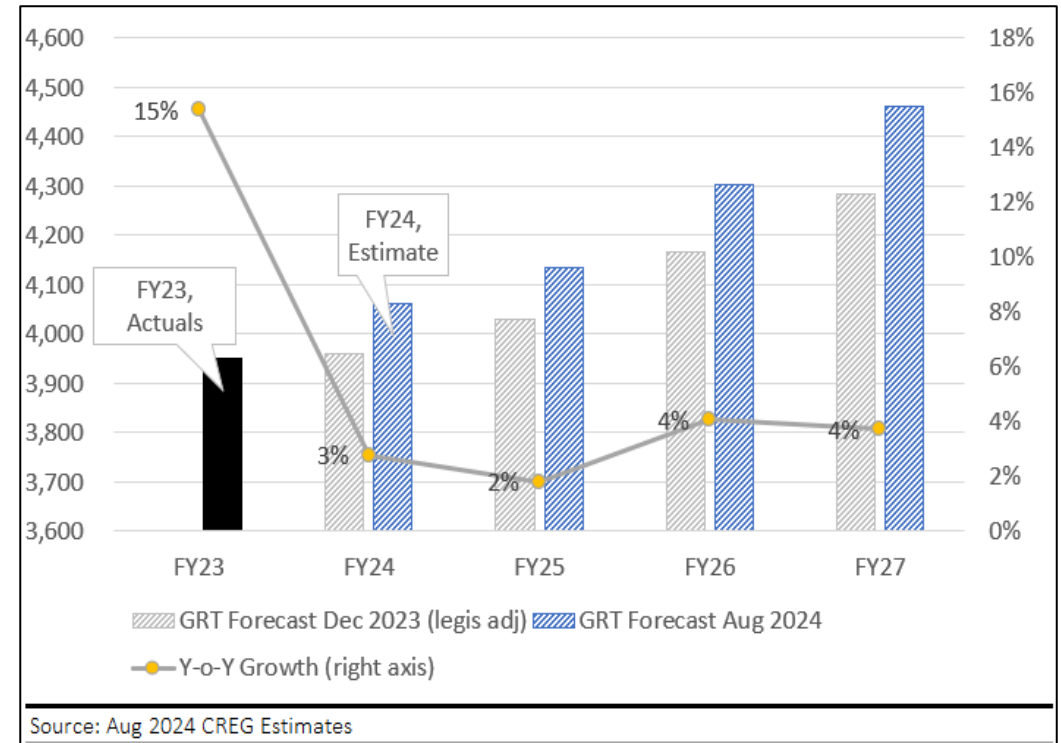
1 Underlying economic growth is still positive with the oil & natural gas industry leading the near-term growth rates.

2 Thus, every estimates increased by, at least, $100 million. The greatest increase is for FY27 ($179 million).
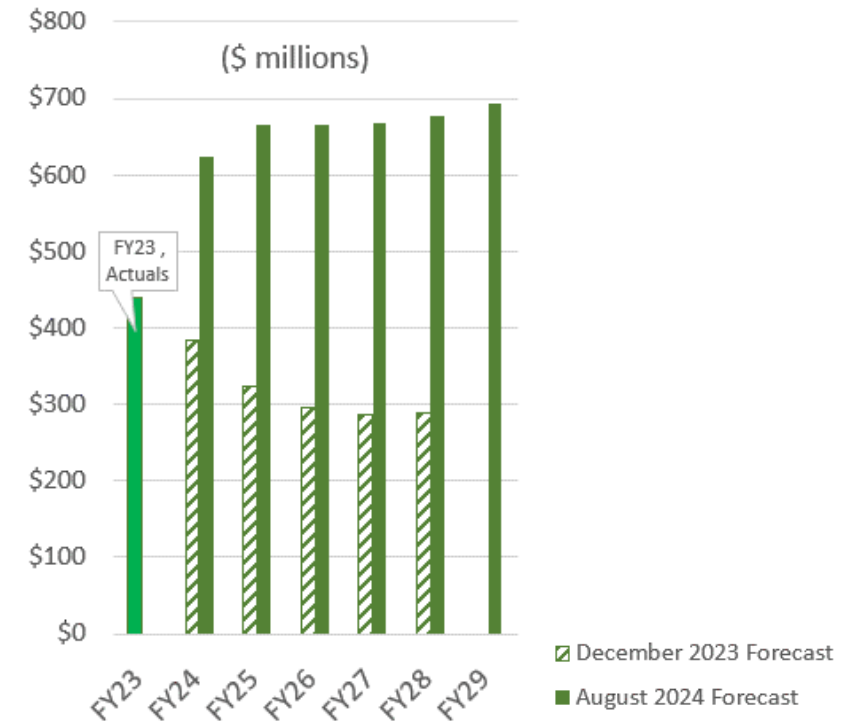
Income Taxes Outlook

Personal Income Tax Revenue ($ Millions)

- Legend:
  - PIT Forecast Dec 2023
  - PIT Forecast Aug 2024
  - PIT Forecast Dec 2023 - Leg Adj
  - Y-o-Y Growth (right axis)

1 In FY24, ~$190M of pass-through entity (PTE) was moved from PIT to CIT, causing FY24 PIT to fall and CIT to increase

2 PIT forecast decreased from previous December forecast by $351 million in FY25, $333 million in FY26 and $348 million in FY27 due accounting changes
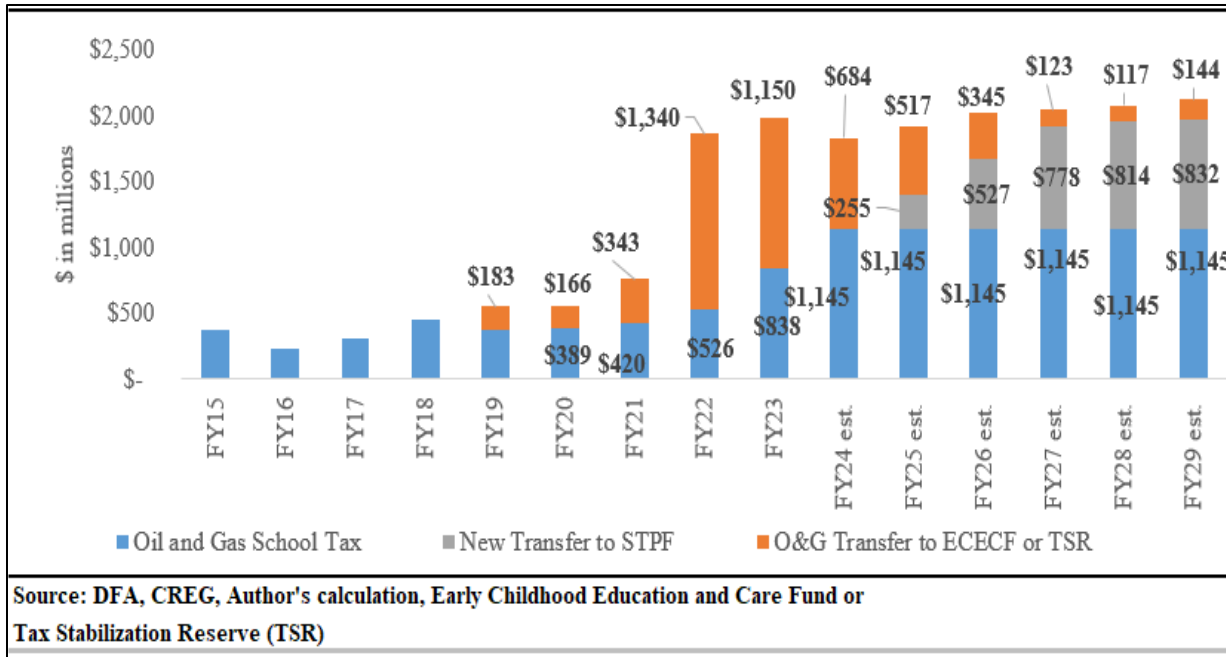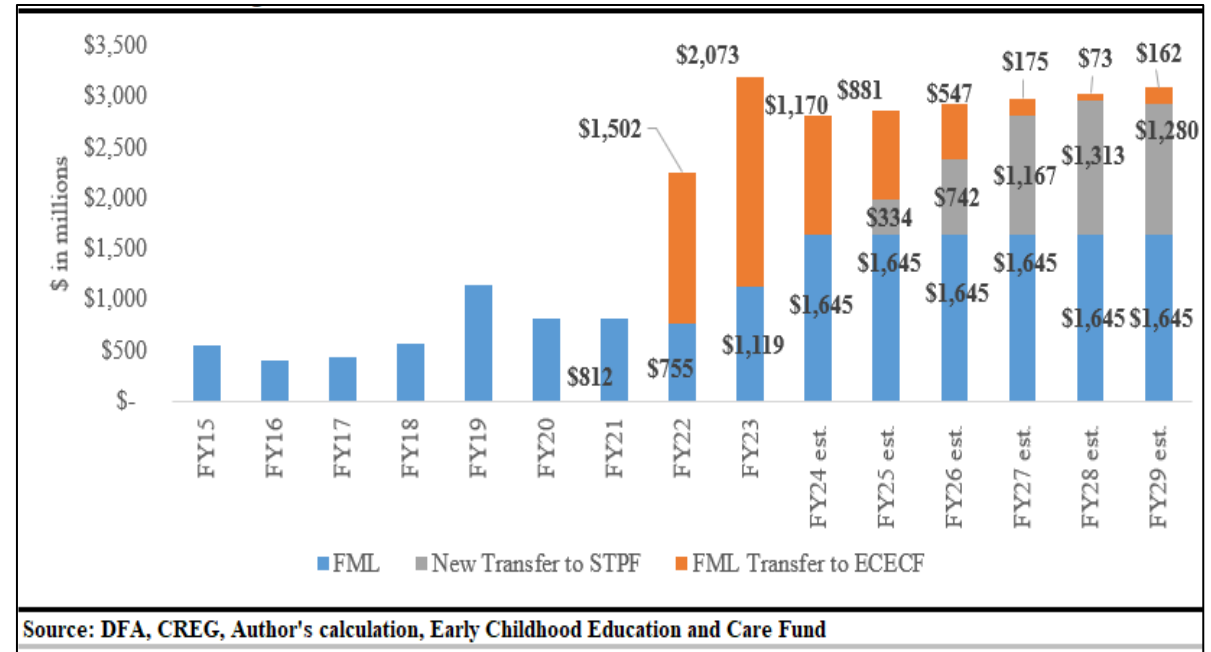
Net Corporate Income Tax ($ Millions)

- Legend:
  - December 2023 Forecast
  - August 2024 Forecast

1 Legislative adjustments include new CIT credits and a single 5.9% tax bracket. Impact of $21 million per year

2 Net CIT forecast to reach $665 million in FY25 & FY26 with steady PTE revenue.

Severance Taxes & Rents and Royalties Outlook

OGAS School Tax Revenues

Source: DFA, CREG, Author's calculation, Early Childhood Education and Care Fund or Tax Stabilization Reserve (TSR)

Federal Mineral Leasing (FML)

Source: DFA, CREG, Author's calculation, Early Childhood Education and Care Fund

1 Severance tax and rents and royalties revenues to the general fund are capped at FY24 level ($1.145 billion).

2 FML and oil and gas school tax estimated transfers to the Severance Tax Permanent Fund (STPF) are estimated to begin FY25.

3 OGAS school tax transfers to ECECF are $684 million in FY24, $517 million in FY25, and $345 million in FY26

4 FML estimated transfers to ECECF are $1.17 billion in FY24, $881 million in FY25, and $547 million in FY26.
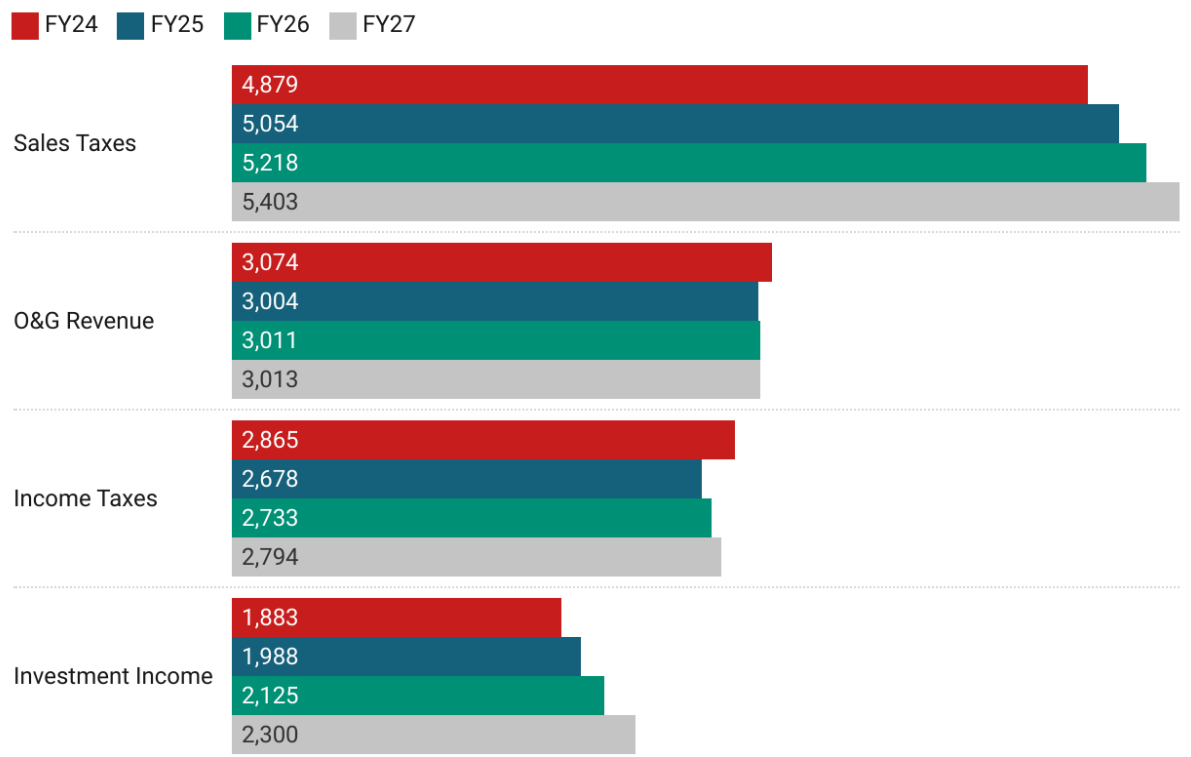
New Mexico Consensus Revenue Summary

General Fund Total Recurring Revenue
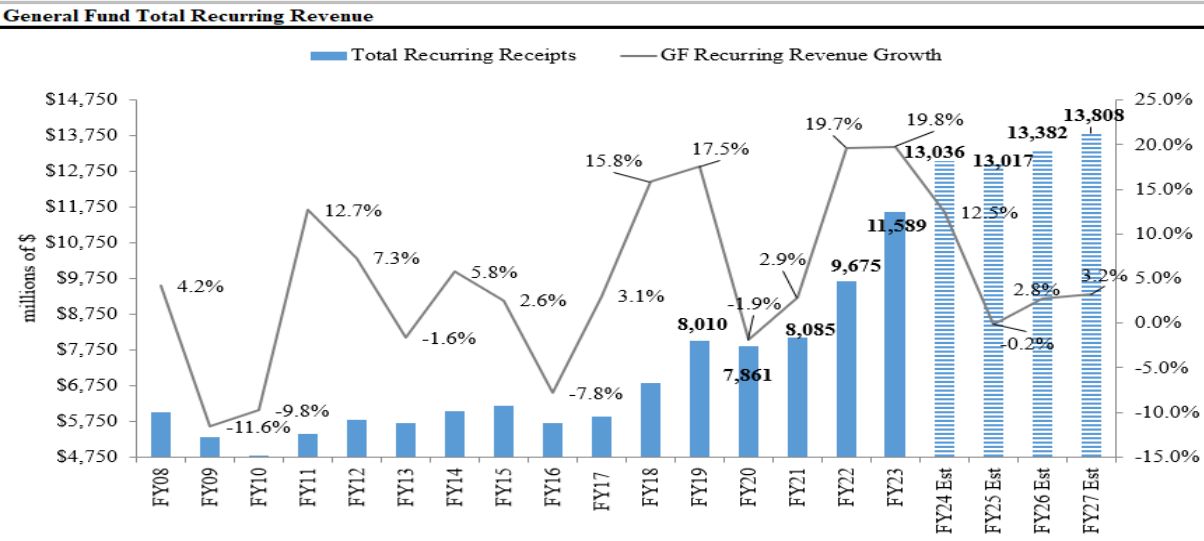
Source: DFA, CREG

General Fund Recurring Revenue Breakdown
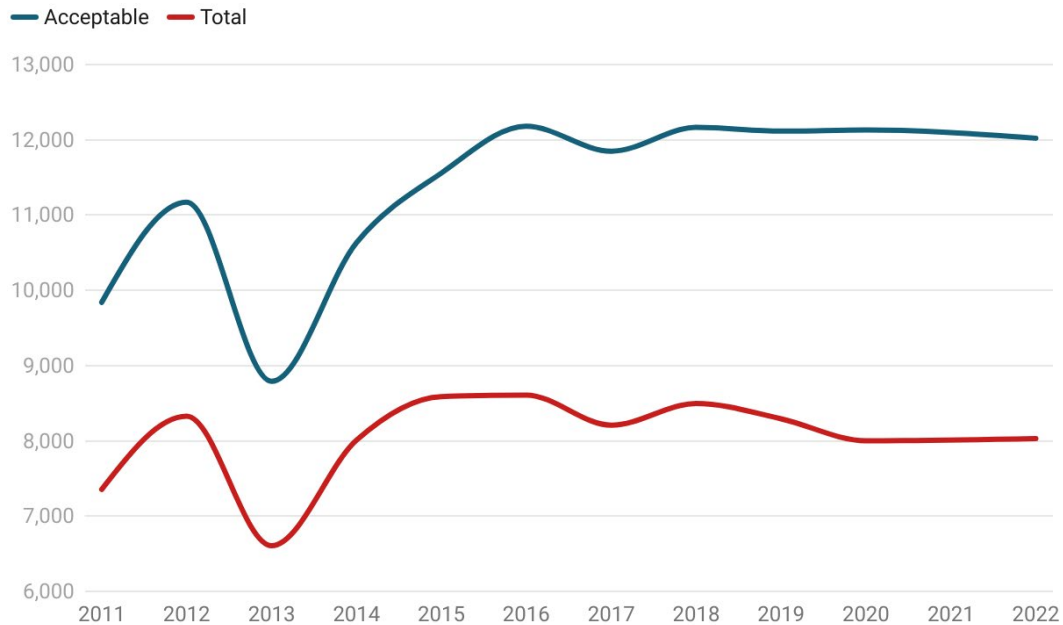### ($Millions)

Created with Datawrapper

Sections

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5. **State Land Revenue diversification**

Instrumental for economic development: roads and bridges conditions
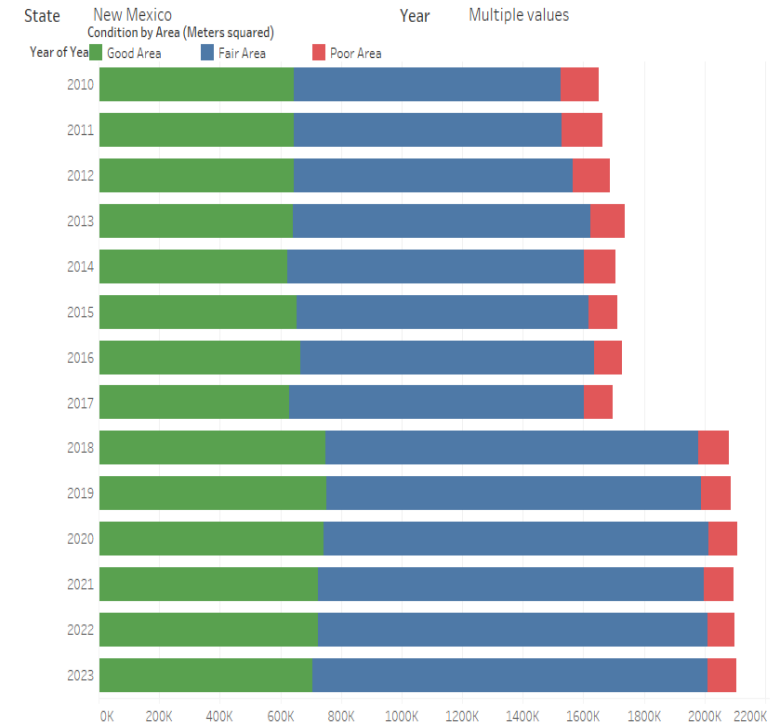
New Mexico Acceptable and Total Roads

Bridge Conditions

1 The percentage of acceptable roads in New Mexico has decreased from 75% in 2011 to 67% in 2022.

2 The deteriorated roads cost New Mexicans $3.3 billion : (1)$1.4 billion in vehicle operating costs; (2) $919 million in safety costs; and (3) $1 billion in congestion costs
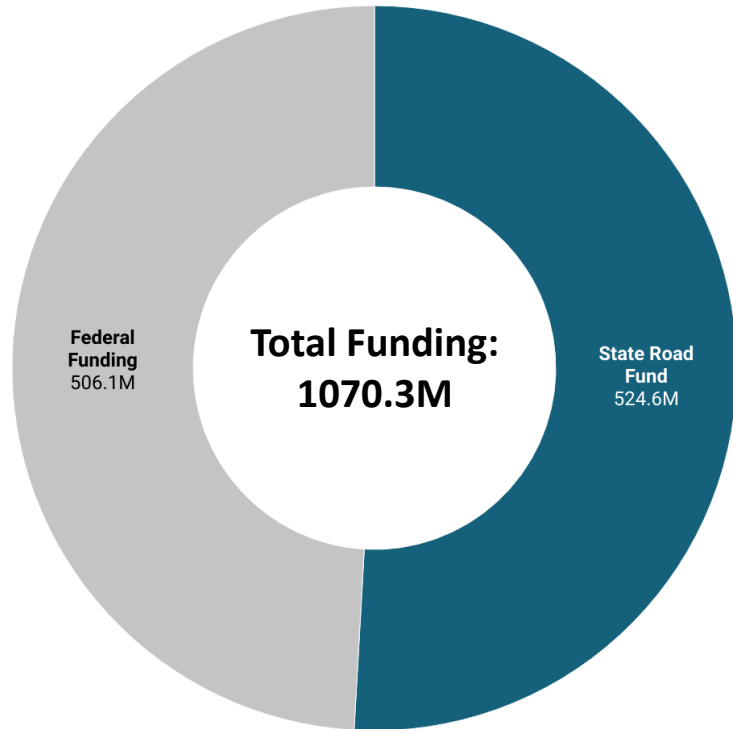
1 2018-2023: (1) Gradual decrease in the Good Area, (2) Stability in the Fair Area, and (3) Slight increase in the Poor Area.

2 2024 TRIP report found that of New Mexico's 4,037 bridges: (1) 5% were in Poor condition, (2) 60% were in Fair condition, and (3) 35% were in Good condition.

Funding Overview (FY24)

NMDOT Funding Sources

Total Funding:
1070.3M

Federal Funding 506.1M

State Road Fund 524.6M

Source: NMDOT • Created with Datawrapper

State Road Fund Recurring Revenues FY24

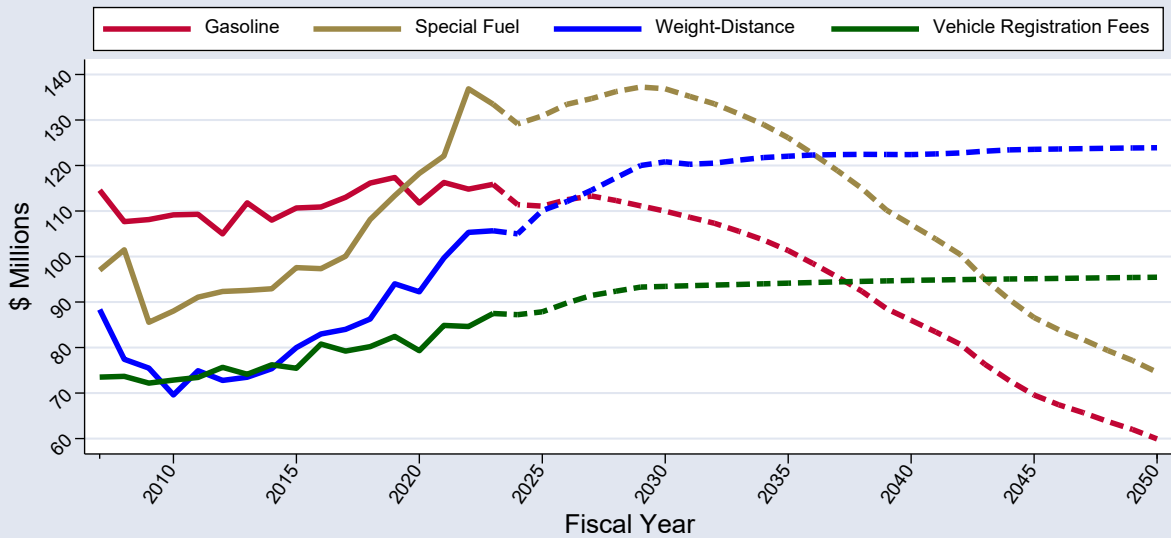|	
Special Fuel Tax	24.6%
Gasoline Tax	21.2%
Weight Distance Tax	20.0%
Vehicle Registration	16.6%
Motor Vehicle Excise Tax	11.6%
Other Sources	5.9%
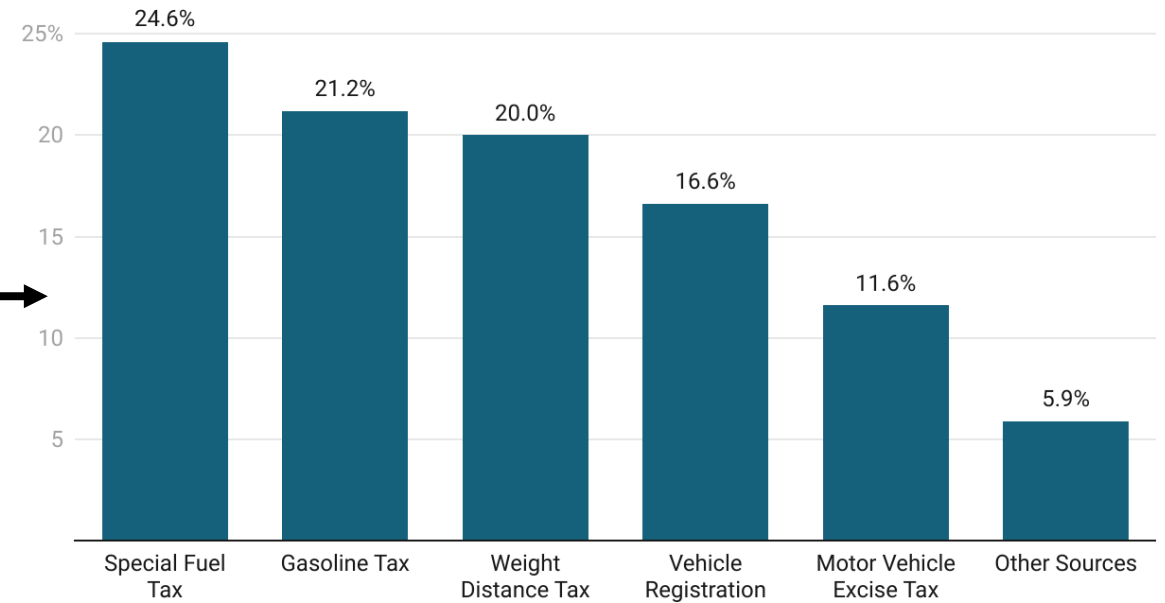
Source: Based on NMDOT's July 2024 Road Fund Outlook • Created with Datawrapper

State Road Fund Long Run Forecast

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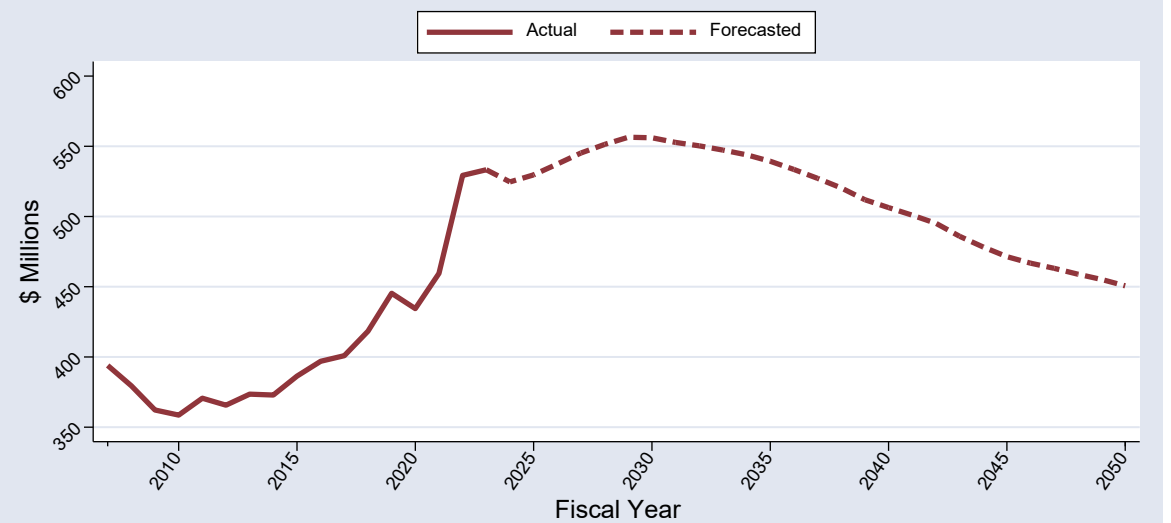
Near term forecast based on NMDOT's July 2024 Road Fund Outlook.
Longer term forecast based on projections from S&P Global.

1 **Short-term transition to more fuel-efficient vehicles, and long-term transition to alternative fuel vehicles will lead to declining gasoline and special fuels tax revenues.**

1 **State Road Fund revenues are expected to increase 6% by 2030. Decline 9% from 2030 to 2040; and decline another 11% between 2040 and 2050.**

2 **In total the State Road Fund is expected to decline 14% between 2024 and 2050.**

Increasing Cost of Road Construction

Transportation Construction Price Index

Actual — — Forecasted

2012=100, Source: BEA, S&P Global

1 The cost of road construction is expected to increase 138% between 2024 and 2050 .

2 Sources of increased road and bridge degradation: (1) Intense heat, (2) Heavy rainfall, (3) Forest fires, and (4) Related flooding and landslides. All forecasted to increase with climate change.

3 Sources of road and bridge degradation expected to increase the need for road construction, repair and maintenance, and the reduce the days available for that work.

Key takeaways

1 Roads & bridges

> New Mexico roads and bridges are already in need to intense repair and maintenance

2 Energy transition

> The transition to higher fuel-efficiency and alternative fuel vehicles are expected to negatively impact Department revenues as the cost of road construction is expected to increase

3 Climate change

> Climate change is expected to create a need for even more road construction repair and maintenance

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② **Economic and Revenue projections**

③ **Transportation-specific themes**

④ **Permanent Funds relevance**

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Overview of main permanent and endowment funds

	Year established	Funding Source	Distribution rule
1 Land Grant Permanent Fund (LGPF)	**1912**	Royalties for mineral production on state trust lands	1) 6.25% of the 5-year of permanent school account rolling average 2) otherwise, 5% of 5-year rolling average to each beneficiary
2 Severance Tax Permanent Fund (STPF)	**1973**	1) Severance tax revenue not used for bonding capacity for capital outlay 2) Excess OGAS emergency school tax and federal mineral leasing (FY25)	4.7% of the 5-year rolling average to the general fund (unearmarked)
3 Tax Stabilization Reserve (TSR)	**2019**	OGAS Emergency School Tax above 5-year average, if total GF reserves < 25% of recurring appropriations	May be appropriated to shore up the GD budget in the event of a revenue downturn, or by a 2/3 vote of the House and Senate
4 Early Childhood Education and Care Fund (ECECF)	**2020**	1) Same as TSR but GF reserves > 25% 2) Federal Mineral Leasing payments above 5-year average	5% of the rolling 3-year average to the Early Childhood Education and Care Program Fund
5 Tobacco Settlement Permanent Fund (TSPF)	**1998**	Annual payments to the state as part of the Master Settlement Agreement	Old: 50% of tobacco settlement revenue to tobacco program funds New: 4.7% of the rolling 5-year average to tobacco program funds (FY25)

Overview of other permanent and endowment funds
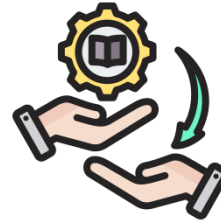
1 Water Trust Fund (WTF)

2 Rural Libraries Endowment Fund (RLEF)

3 Conservation Legacy Permanent Fund (CLPF)

4 Opioid Settlement Restricted Fund (OSRF)

5 Workforce Development and Apprenticeship Trust Fund (WDAF)

NEW
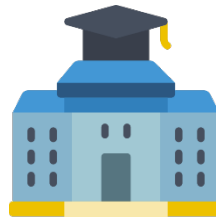
6 Higher Education Trust Fund (HETF)

NEW

7 Capital Development and Reserve Fund (CDRF)

NEW

Contribution to smart fiscal policy – More stable permanent fund distributions

Estimated Sources of General Fund Revenue

■ FY24 ■ FY50

Sales Taxes
- 38%
- 33%

Permanent Fund Distributions
- 12%
- 31%

Income Taxes
- 23%
- 24%

Severance Taxes, Rents & Royalties
- 24%
- 9%

Other
- 4%
- 2%
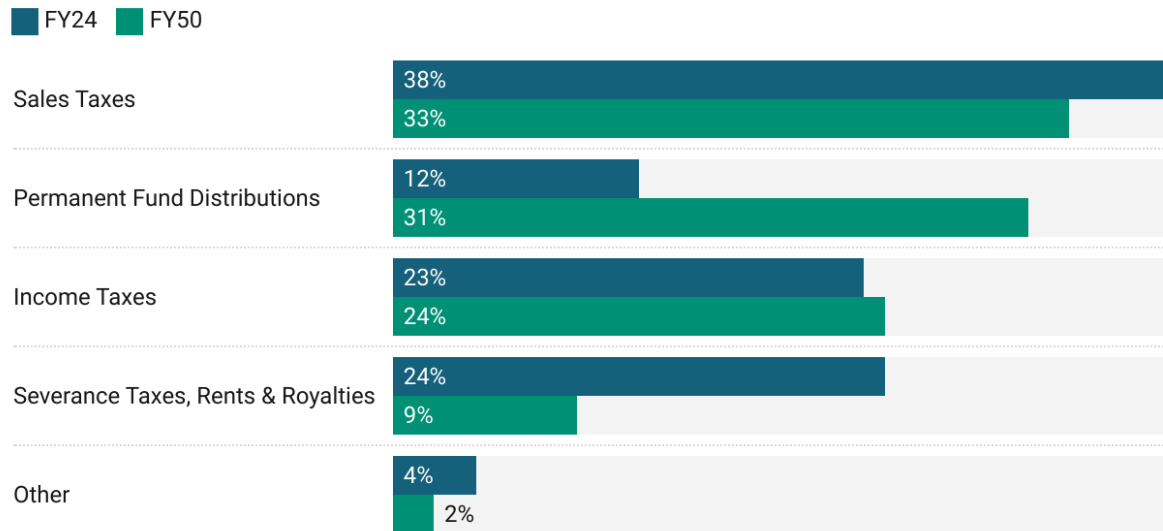
Source: NM State Investment Office analysis of NM Consensus Revenue Estimating Group Long-Term Revenue Outlook, July 2023, Baseline Scenario • Created with Datawrapper

1 In its July 2023 Long-Term Revenue Outlook, NM's Consensus Revenue Estimating Group projects general fund revenues from the oil and gas industry will decline over time as the world transitions beyond traditional energy sources.

2 As energy-related revenues decline, permanent fund distributions will grow significantly as a share of general fund revenue, helping to displace estimated future declines in oil and gas revenues.

Contribution to economic diversification – investments in frontier technologies start-ups and education

Start-ups investment

Investments

1 **SIC's Private Equity Investment Program (NMPEIP).** one of several programs currently assisting with the launch of NM start-up companies.

2 **Resources.** SIC can invest up to 11% of the ~$9.7B Severance Tax Permanent Fund in NM Venture Funds/Start-ups. From November 2022 to October 2024 it has >$582.5 millions in commitments.

Frontier Technologies

Artificial Intelligence

Aerospace

6G Communications

Climate Technologies

Relevance of investments funding for education
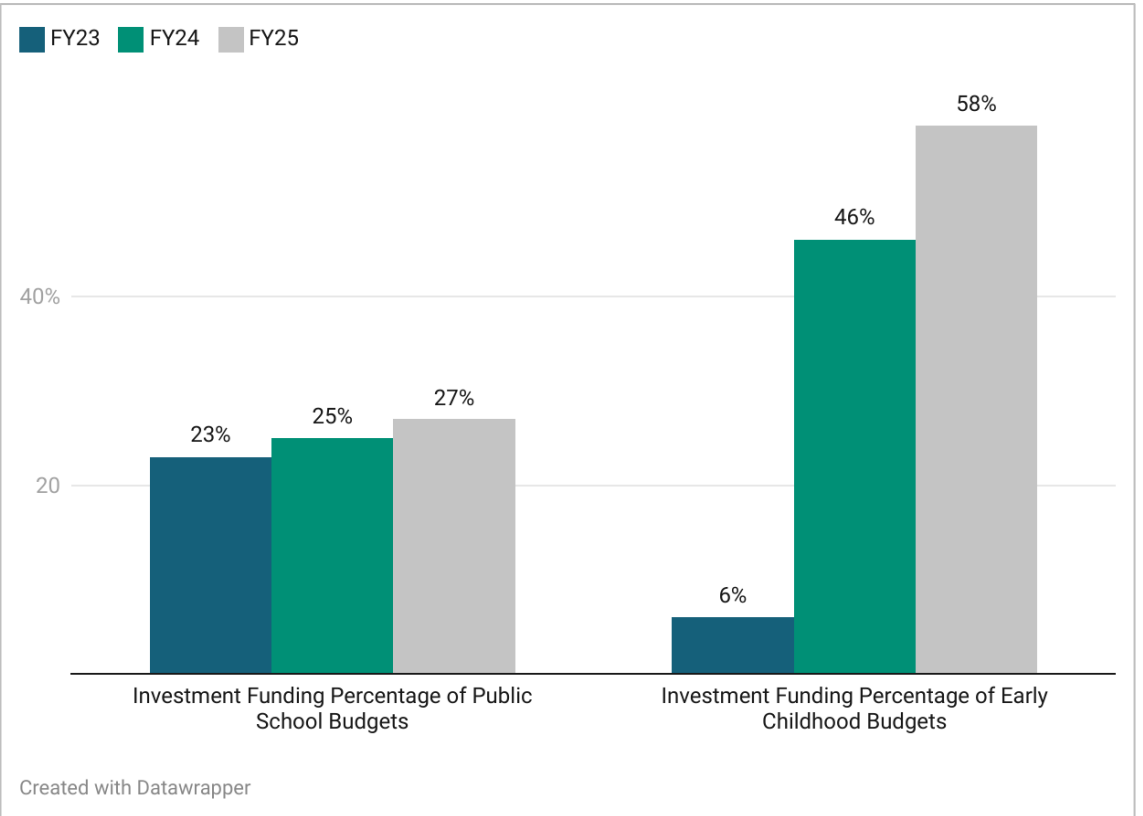
FY23   FY24   FY25

58%

46%

27%

25%

23%

40%

20%

6%

Investment Funding Percentage of Public School Budgets

Investment Funding Percentage of Early Childhood Budgets

Created with Datawrapper

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5 **State Land Revenue diversification**

State Land Trust Overview

1 — *Purpose*

> New Mexico was granted trust lands by the federal government for the specific purpose of using these working lands to support public institutions.

2 — *Commissioner*

> Statewide elected executive officer of the State Land Office, who has the duty to administer the land in a way that generates sustainable income and conserves the assets to maintain their productivity.

3 — *Beneficiaries*

> Earnings benefit schools, universities, hospitals and other important public institutions – which reduces the burden on taxpayers by billions of dollars each year.

New Mexico Land Ownership

Ownership

State Trust Lands
- Subsurface Estate
- Surface Estate
- Both Estates

Other Surface Ownership
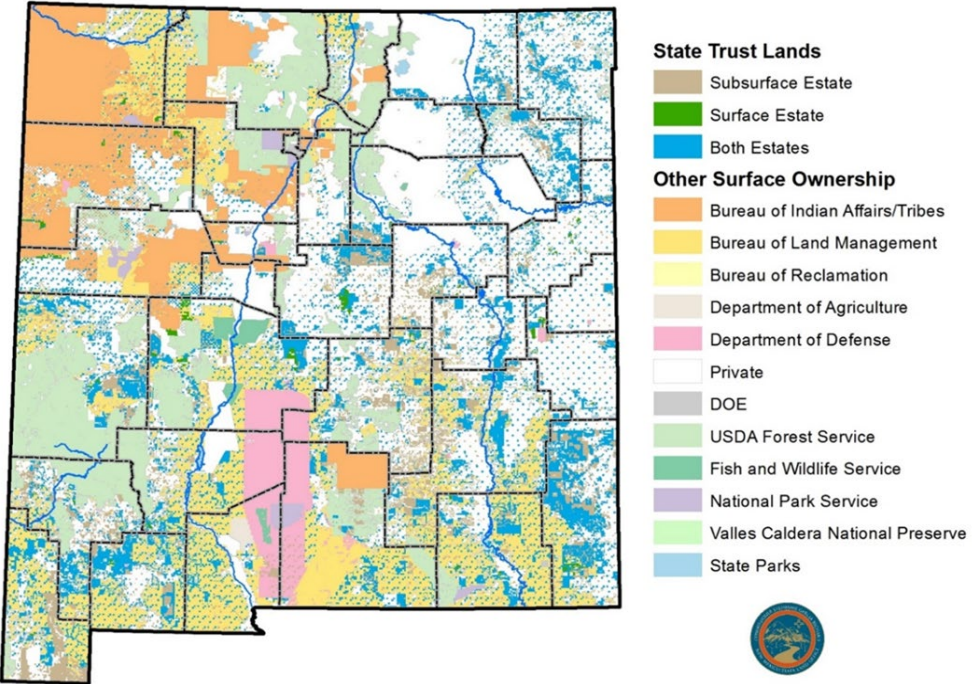- Bureau of Indian Affairs/Tribes
- Bureau of Land Management
- Bureau of Reclamation
- Department of Agriculture
- Department of Defense
- Private
- DOE
- USDA Forest Service
- Fish and Wildlife Service
- National Park Service
- Valles Caldera National Preserve
- State Parks

1 **Land.** About 9 million acres of surface estate (~12% of all land in NM) and 13 million acres of mineral estate (~17%) located in every county.

2 **Earnings.** Working lands has generated over $10 BILLION since 2019 from a wide variety of leasing activities (energy, commercial development and agriculture)
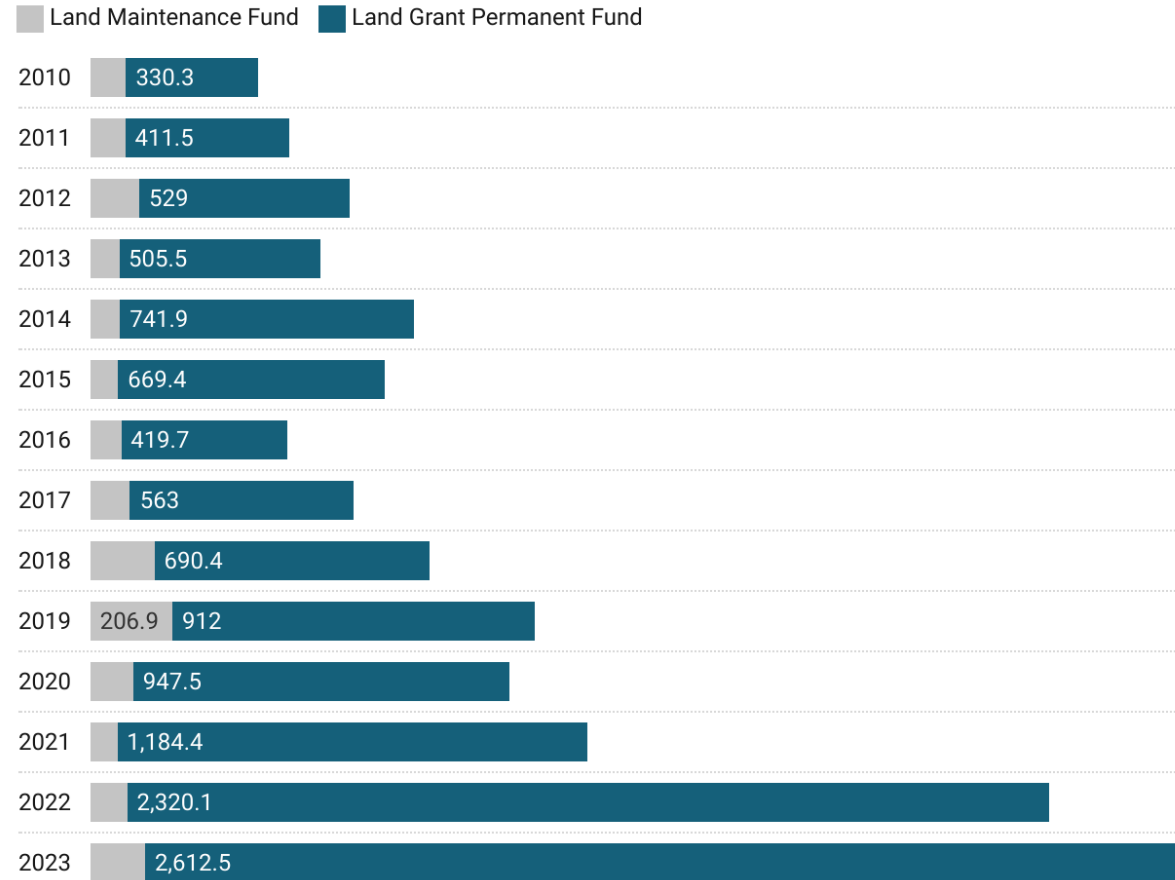
Allocation

	Surface Acreage	Mineral Acreage
Common Schools	76.02%	77.01%
Water Reservoirs	3.82%	3.71%
University of New Mexico	2.83%	2.72%
New Mexico State University	2.17%	2%
New Mexico Tech	1.82%	1.73%
New Mexico Military Institute	1.51%	1.26%
State Penitentiary	1.27%	1.26%
Behavioral Health Institute	1.13%	1.29%
School for the Blind	1.13%	0.94%
Miners Colfax Medical Center	1.1%	0.95%
Public Buildings	0.99%	1.04%
School for the Deaf	0.97%	0.84%
Eastern New Mexico University	0.93%	0.82%
Western New Mexico University	0.87%	0.94%
New Mexico Highlands University	0.87%	0.94%
Charitable Penal & Reformatory	0.83%	0.79%
Rio Grande Improvement	0.61%	0.7%
New Mexico Boys School	0.56%	0.49%
Northern New Mexico College	0.36%	0.45%
Carrie Tingley Hospital	0.21%	0.11%
Saline Lands	0.01%	0.01%

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State Trust Lands Revenues

State Land Office Annual Earnings by Fund (millions)

Legend: ▢ Land Maintenance Fund ▮ Land Grant Permanent Fund

Year	Value
2010	330.3
2011	411.5
2012	529
2013	505.5
2014	741.9
2015	669.4
2016	419.7
2017	563
2018	690.4
2019	206.9 / 912
2020	947.5
2021	1,184.4
2022	2,320.1
2023	2,612.5

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Steps towards diversifying revenue

1. **Expand Renewable Energy**

2. **Actively pursue commercial development opportunities**

3. **Grow outdoor recreation**

4. **Monetize conservation activities**

5. **Tackle legacy fiscal risks and improve stewardship of oil and gas activities**

6. **Expand agency resources and capacity**

7. **Foster partnerships to leverage investment opportunities**

8. **Strategic planning**

9. **Increase oil and gas royalty rate (requires legislation)** ⏳

Renewable energy

Key figures (FY2019 – 2024)

Annual Revenue	526%
# Active Leases	420%
Leased MW	626%

Developers

Pattern Energy

1. **Min. estimated lifetime earnings.** Over $360 million from existing Pattern Energy projects (direct lease revenue).

2. **Projects.** (1) Western Spirit Wind (Operational – 50+ MW), (2) Sun Zia Wind (In development – 650+ MW), (3) Sun Zia Transmission Line

EDF Renewables

1. **Min. estimated lifetime earnings.** Over $101 million from existing project (direct lease revenue).

2. **Projects.** Silver Stallion – In Development (400 MW)

Innergex Renewable Energy Inc.

1. **Min. estimated lifetime earnings.** Over $44 million from existing project (direct lease revenue).

2. **Projects.** Hidalgo Wind – In Development (150 MW)

Key takeways

1 — *Economic pillar* → **State trust lands are a major economic and financial pillar of the state (LGPF/LMF annual distributions support the state budget, reducing taxpayer reliance to support public institutions)**

2 — *Revenues* → **Significant strides being made to increase commercial leasing revenue but overall earnings reflect high oil and gas production in Permian Basin**

3 — *Wind energy* → **Upwards of 2,000 MW of wind energy either under development or currently being generated by projects on New Mexico state trust land**

4 — *Solar energy* → **Approximately 400 MW worth of solar energy are also generated via projects on state lands that are either already in operation or under development**

Revenue Diversification in New Mexico

Sustainable Economy Task Force

August 2024

Discussion Questions

1   **How could New Mexico state government better practice transparency with regard to fiscal vulnerability?**

2   **What is missing from this statewide picture?**

3   **What are some possible differences between statewide and regional/local fiscal vulnerability?**

4   **What are the limitations of New Mexico's permanent funds? In other words, which essential public services and/or elements of local government finance are not protected by its safety net?**

5   **How can New Mexico maximize state revenues and resulting savings now to prepare for a decline in the oil and gas industry?**

6   **Northwest New Mexico has experienced economic distress following a decline in the gas industry and coal closures. Is state government taking adequate steps to collect data about and learn from these localized revenue and job losses to support communities experiencing fiscal vulnerability and uncertainty?**