

New Mexico 2023: Riding the Wave of Oil and Gas

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Abstract

The 2023 legislative session was a long and productive one in New Mexico. The annual session required legislators to pass a budget while juggling the social and cultural issues of the day. On the budget front, lawmakers were fortunate to witness record breaking revenues as oil and gas production and receipts soared. Simultaneously, tax collections increased and the state economy finally completed its pandemic recovery. Record surpluses and rosy forecasts meant that lawmakers could significantly expand the state budget (over 13%) and still plot how to secure the state's financial future. Education funding and capital outlay projects were the clear winners. On the social front, bills related to guns, crimes, abortion, and elections all shared the limelight with appropriations requests. At the end of the day, the 2023 legislature passed its largest ever annual budget, while also passing tax rebates and expanded tax credits. Lawmakers took steps towards stabilizing the long term flow of oil and gas money through permanent funds while, on the social front, strengthening abortion access, enacting safe storage gun laws, providing increased funds for public safety, and passing election code reforms.

Introduction

In 2023, New Mexico finds itself in a pleasant spot. Oil and gas production is booming, income tax collections are up- and unemployment, is down. The state is running a large budget surplus and lawmakers have had significant “new recurring money” to budget. The budget enacted at the close of the 2023 regular session reflected these positive numbers with legislators appropriating \$9.5 billion (including \$3.6 billion in new money) for fiscal year 2024 (FY24) , an overall annual increase of 13% (Highlights 2023). Lawmakers utilized the new money to make strategic investments in education and health care, presumably with the long-term goal of strengthening economic foundations. Lawmakers also took steps to shift a portion of the current budget surplus into the state's permanent funds with the hope of stabilizing future distributions to the general fund. Additionally, they approved comprehensive tax rebates and enacted state tax code reforms. And, last but not least, lawmakers set in motion another \$1.2 billion in infrastructure projects. Budget crafting legislators also juggled the topics of the day- abortion, elections, guns, public safety, and the environment- with varying levels of success. Solid Democratic majorities in both houses, a newly re-elected Democratic governor, and a healthy state balance sheet made the 2023 legislative session more mild-tempered than most.

New Mexico's People

To understand New Mexico's budget needs, one must first understand its people. Demographically, New Mexico is much like its western neighbors. It is big (5th largest area in the United States) with large rural areas and dense population centers, mostly following the north to south flow of the Rio Grande. Like many of its neighbors, it has a substantial Hispanic population and it has long been a majority-minority state. Currently, over 50 % of the population is Hispanic and more than 11% Native American (Census Quick Facts 2022). Unlike its western neighbors, New Mexico continues to grow very slowly with a decennial growth rate of 2.8 % between 2010 and 2020. This is most noticeable when compared Texas and Arizona, its neighboring states, both with double digit decennial growth rates (15.9% and 11.9% respectively). New Mexico residents also tend to be older (when compared nationally, behind only Wyoming and Florida in 2022) and poorer, with a current poverty rate of over 18% (NM HHS 2022). A population that is older, more rural, and economically disadvantaged has an impact on the budgetary resources and needs of the state. How those needs are met is determined by legislative and executive deliberation, both heavily influenced by state elections. The 2022 general election was a significant election year in New Mexico with the governor's race and all state-wide officers up for election.

New Mexico Elections

New Mexico has long been a moderate state, with both Democrats and Republicans holding the governor's office in the 21st century. In the November 2022 general elections, however, Democrats swept the board. Democrats claimed all state-wide offices, with strong majorities in the state House and Senate as well as all the United States congressional seats. Democrats already held both United States Senate seats. While Democrats have dominated state politics in recent years, the 2022 general election sweep was an impressive one. Voters turned out in record numbers for the midterm election (Boyd 2022). In a competitive governor's race, incumbent Democrat Michelle Lujan Grisham defeated Republican challenger Mark Ronchetti by 6.5 percentage points (New Mexico Secretary of State 2022). Decennial redistricting had created a new congressional map and Democrats won all three congressional districts, with newcomer Gabe Vasquez defeating the state's lone Republican United States Representative in a newly drawn southern New Mexico district. Though the Democratic challenger was successful and the district had been a target for Democrats, Vasquez won by less than 1% of the vote, besting incumbent Rep. Yvette Herrell (R) by .6%. Herrell has already announced her challenge to the seat in 2024. Democrats retained solid majorities in both the state House and Senate (Boyd, 2022).

Though Democratic wins were expected and elections ran relatively smoothly, New Mexico did not escape the election vitriol found in many places in the country. The presence of partisan "election watchers", challenges to local county clerks, and post-election violence marked the election season. New Mexico's Secretary of State, Maggie Toulouse Oliver, eventually had to take several counties to court forcing them to certify the election results (Gowen 2022). In another instance, a losing Albuquerque area Republican legislative candidate hired several

people to fire gun shots at the houses of several incumbent Democratic legislators (Hay 2023). It is not surprising that election code amendments were offered and passed in the 2023 session.

As Democrats have solidified their dominance of New Mexico politics in recent years, the gender of New Mexico governance has visibly changed. After the 2022 general election, women have achieved gender parity in the New Mexico House of Representatives, with women making up 53% of the chamber, a historic high. In the New Mexico Senate, women make up 29% of the chamber. Additionally, the governorship has been held by a woman for 12 years, 3 of the 5 state-wide offices are now held by women, and women hold a majority of state appellate court judgeships. Until the recent election of United States Congressman Gabe Vasquez, all of New Mexico's United States House members were women (McKay 2022).

The New Mexico Economy and the Revenue Outlook

New Mexico is a poor state with a high level of individual poverty (Nathanson 2022). Nonetheless, in 2023, state coffers are flush and reaching record levels. Like most states, New Mexico revenue collections suffered greatly at the beginning of the COVID-19 pandemic in 2020. In the spring and fall of 2020, oil and gas production, tourism, and gross receipts collections collapsed- leaving New Mexico, its revenue projections, budgets, and operating resources in a precarious state. Healthy reserves, multiple budget cutting legislative special sessions, and the deep pockets of the federal government kept New Mexico afloat. The New Mexico Constitution requires a balanced budget, thus, state lawmakers were forced to significantly cut spending in 2020. Since 2020, the state's budget fortunes have steadily improved. Record revenue collections have provided lawmakers with healthy state coffers and significant amounts of "new money" to allocate.

New Mexico resources are monitored jointly by an executive-legislative task force called the Consensus Revenue Estimating Group (CREG). Economists from the executive's Department of Finance and Administration, Department of Taxation and Revenue, and the Department of Transportation join forces with economists from the Legislative Finance Committee to monitor revenue forecasts and make predictions about the state's economy and revenue expectations. Reporting in the fall of 2022, the forecast group anticipated that more than \$2 billion in additional revenue would be available to lawmakers in the spring of 2023. By late 2022, in a December presentation to legislative committees, the forecast group had revised its earlier estimates to over \$3.5 billion in new money (CREG Dec. 2022). (See Figure 1).

Figure 1.

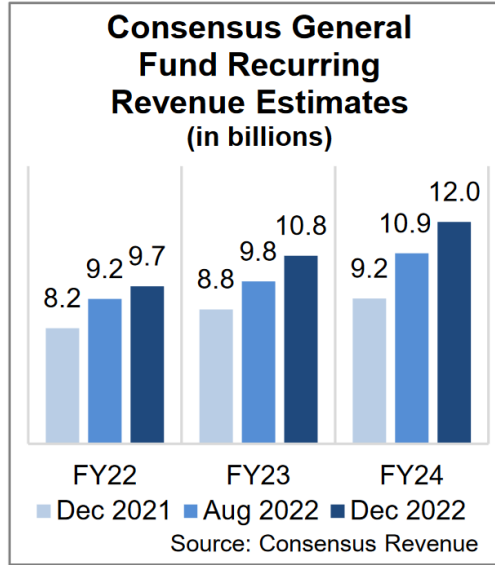
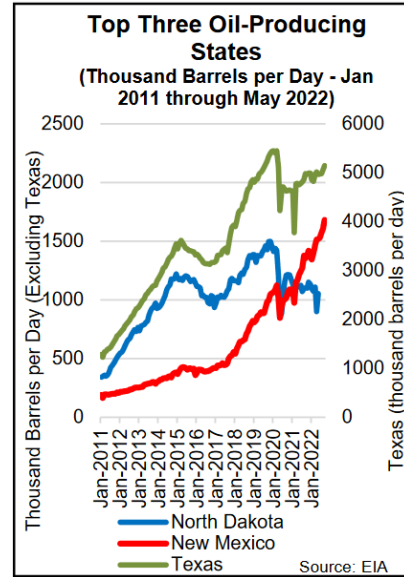


Figure 2.



Despite rosy predictions of significant “new money,” the forecast group’s December presentation was tempered with comparisons to the rest of the United States. In parallel with the United States, New Mexico experienced two quarters of reduced growth in 2022. During that time (Oct 2021-Oct 2022), New Mexico did experience employment growth, adding 25,000 jobs or 3% to the state’s payrolls. Though these increases contributed to an improving employment market, unemployment still clocked in at 4.3 % in New Mexico, above the national unemployment rate of 3.7%. Compared to February 2020, total nonfarm employment in December 2022 was still 0.8% lower, being 7,000 jobs short of a complete employment recovery to pre-pandemic levels (CREG Dec 2022). New Mexico non-farm payrolls finally reached pre-pandemic levels in March of 2023.

Even though New Mexico’s unemployment rate exceeded the United States rate and the state had not completely regained pre-pandemic employment levels, forecasters gave legislators plenty to be pleased about. The forecasting group reported strong economic activity across all sectors. Personal income tax collections rose in fiscal year 2023 (FY23), consumer spending has remained high, and oil and gas has achieved record high production levels. Oil and gas production has long been New Mexico’s golden goose. It is this area, in particular, that most pleases and most worries New Mexico budget makers (Boyd 2022).

New Mexico budgets rely on the success of the oil and gas industry. When oil and gas production dips or the price per barrel of crude oil drops, New Mexico budgets tremble. In the spring of 2023, no one was trembling. Rather, budget forecasters eyed record oil and gas contributions to the public coffers (See figure 2). In December 2022, budget forecasters predicted that FY23 general fund recurring revenue would increase by 11.4 % over FY22. Almost two-thirds (66 %) of the recurring general fund revenue increase comes directly from oil and gas. Extractive industry income sources are projected to make up nearly 40% of direct state revenue in the FY24 budget year (Boyd 2022).

Clearly, New Mexico relies heavily on oil and gas and this overreliance has worried generations of lawmakers. Governor Michelle Lujan Grisham and others before her have urged lawmakers to consider ways to diversify the state's revenue stream. Nonetheless, as the golden goose has increased productivity, it has become harder and harder to consider budgets that are not heavily reliant on the extractive industries.

A robust oil and gas industry, relatively low unemployment levels, and strong tax collections combined to present a healthy financial picture for lawmakers crafting budgets at the end of December 2022. In January 2023, the state was half way through FY23. The 2022 legislature had approved an \$8.5 billion dollar for FY 23. Strong revenue collections meant the state was expected to end FY23 with general fund reserves at \$5.08 billion or 60.5% of recurring appropriations. It also meant that the state would start FY24 with substantial reserves. A healthy revenue forecast and a solid balance of reserves provided the 2023 legislative session with a lot of options. Those options included the ability to budget \$3.6 billion in "new recurring money". As of December 2022, total projected recurring revenues for FY24 were forecast to be \$11.99 billion dollars.

Lawmakers traveling to Santa Fe for the 2023 legislative session had a lot to look forward to. Unified government (with Democrats controlling the governor's office, the House, and the Senate), an improving economy, and the legislative session finally shedding pandemic era restrictions, provided a cheerful January start to the annual session. Nonetheless, lawmakers faced serious problems. In addition to crafting an annual budget, lawmakers in 2023 were called upon to craft solutions to issues ranging from education to health care to public safety. These areas comprised the majority of the legislative budgetary discussion.

Education is the state's single largest annual budget item constituting almost half (44%) of the overall state budget (See Figure 3). Despite this, the state continues to rank at the bottom of national rankings (Nathanson 2022). The state has made significant investments in education in the last few years. This has included increasing spending by almost a billion dollars annually, increasing teachers' salaries and expanding universal pre-K. As of yet, these investments have failed to shift the state's poor national rankings.

Ensuring access to health care is a continual battle in a rural state with high poverty and an elderly population. More New Mexicans as a proportion of the population qualify for Medicaid than in any other state (LFC 2023). Low Medicaid reimbursement rates (to health providers), as well as high malpractice insurance premiums, have driven many doctors from the state, leaving the state's poorest residents with limited access to health care.

Crime and high crime statistics have also plagued New Mexico. Like much of America, gun violence and gun accidents have taken a big toll. Businesses and individuals have experienced an uptick in residential and retail property crimes which make splashy headlines in New Mexico's papers. Lawmakers have felt the pressure to address these issues and they have struggled to find effective solutions.

Tax reform is also a perennial consideration, regardless of party leadership or economic prosperity. A large, year-end, general fund surplus prompted tax reform discussions with lawmakers weighing the feasibility of tax cuts and tax rebates.

Rounding out the menu of important issues were a host of social and environmental concerns. The 2023 legislature was called upon to consider the impact of devastating northern New Mexico wildfires in the summer of 2022, as well as efforts to expand nuclear waste storage in southeastern New Mexico. At the same time, like much of America, the legislature was considering abortion access and election reforms. It was against this backdrop that the New Mexico State legislature commenced its annual session in January 2023.

The Legislative Session

The Constitution of New Mexico dictates the manner and place of state legislative sessions; New Mexico legislators are called to begin their annual regular session on the third Tuesday of January. The Constitution states that odd numbered years require 60-day regular sessions, open to deal with any topic (Constitution of New Mexico). New Mexico adopts annual budgets, so crafting the budget is the top of the legislative list. Since a 60 day session is a “long session,” lawmakers also try to address all the other social and economic priorities of the moment. For lawmakers elected to two year terms (all members of the New Mexico House), this is the only session permitting unlimited topics during their two year term. Regular sessions in even years are 30 day sessions, constitutionally restricted mostly to budget and revenue matters as well as special requests from the governor. Thus, social agendas and financial agendas jockey for consideration in the long session.

Though lawmakers arrived in Santa Fe in mid-January 2023 to begin the session, most had been involved in summer and fall interim committees laying the groundwork for the session. The interim Legislative Finance Committee (LFC) had worked through the fall to prepare its preliminary budget. The governor’s office, by tradition, also prepares its budget recommendations for early session introduction. Pre-session comparisons of the executive and legislative budgets show little daylight between them. The executive recommendation for FY24 included an overall general fund budget totaling \$9.4 billion in recurring spending, an 11.9% increase from FY23. The executive recommendation maintained reserves at 34.9%. The governor also proposed increases in funding to address housing and homelessness, health care and behavioral health, public safety, economic development, environmental projects, and infrastructure (Governor’s executive recommendations 2023). In an attempt to bolster government staffing levels, the spending plan released by the governor recommended 4% pay raises for all state workers, teachers, and other education workers in New Mexico (Boyd 2023).

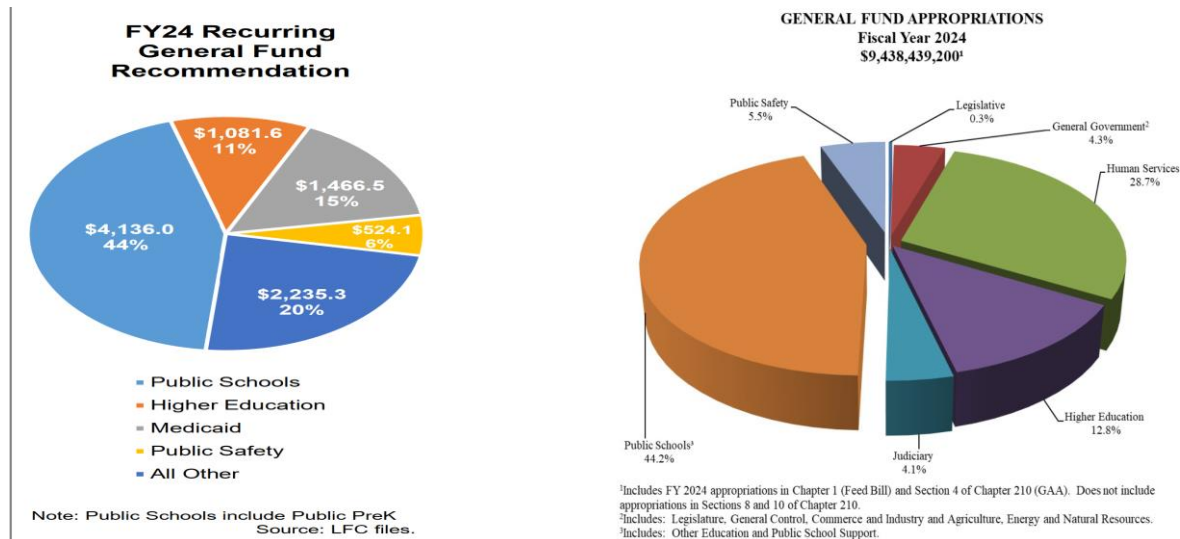
By comparison, pre-session, the LFC released a budget recommendation for FY 24 calling for spending \$9.44 billion from the state’s general fund, a 12% or \$1.04 billion increase over FY23 planned spending. The LFC proposal recommended keeping general fund reserves at 30%. Like the governor, the legislature recommended additional funding for extended school years and other school programs including expanding funding for early childhood education. The LFC proposed 5% teacher salary increases. The proposed legislative budget included provisions for

health care (including increased reimbursements to Medicaid providers), child welfare, and the environment (LFC 2023). Acknowledging state agencies' struggle with hiring, the recommendation also included an across-the-board 5% salary increase for state and education employees and targeted increases for workers in child welfare, public safety, and other high priority areas (LFC 2023).

Both the governor's and the legislative preliminary budgets acknowledged the enormous difficulty of shaping sustainable budgets. The 2023 legislature was presented with the potential for \$3.59 billion in new recurring revenues for FY24, or a 42.7 % growth from the FY23 operating budget. This added to a prediction that FY23 ending reserve balances would be \$5.22 billion or 62.2 %, prior to any legislative action in the 2023 session (LFC 2023). The worrisome point for both parties is the volatility of the revenue projections and the weaknesses underlying a budget built on the expectation of continued strong consumer spending, strong tax collections, and strong oil and gas production. Many worry that large year to year expansions of the budget are unsustainable. Large surpluses cannot be used to expand recurring expenditures, but how they are ultimately used can promote epic fights.

Despite concerns about the volatility of the economy and the state's heavy reliance on oil and gas production, both the governor and the legislature advocated for increased public spending in excess of 10%. The proposal to increase public spending was not across the board, thus it is necessary to examine the major budget areas of education, health care, public safety, and general government. Of these, K-12 education is the biggest portion, currently accounting for about 44% of the overall budget (See Fig 4.)

Figure 3. (proposed) and Figure 4 (final) appropriations distribution.



Education

Education (K-12) is the single greatest portion of the New Mexico budget in any given year. For FY 24, the legislature proposed recurring general fund appropriations for public education totaling \$4.14 billion, a \$263.3 million or 6.8% increase from FY23 levels. Most of that money would be funneled into the state equalization guarantee distribution, the statutory school funding formula that distributes state funding on the basis of units to all public schools in the state. Proposed formula funding for FY 24 was \$3.92 billion, a \$247 million or 6.7 %, increase from the prior year. (LFC 2023). This money includes sufficient funding to provide public school employees with an average 5% salary increase and an additional 1% to deal with rising insurance premiums and inflation. Money is also included to substantially raise educational assistant salaries, increase employer contributions to health benefits, and provide for professional development. Companion bills also provided for extended educational learning time (longer school calendars), additional teacher development, expanded pre-K, and universal free school lunches.

Education funding and administration was at the forefront of legislative-executive discussions in the spring of 2023. New Mexico has made significant investments in public school funding in recent years, steadily raising teacher salaries, expanding pre-K, and improving infrastructure. Nonetheless, the state continues to lag at the bottom of the nation’s education rankings. Legislative committees, think tanks, and advocacy organizations have all advanced multiple proposals to improve public education but New Mexico students continue to struggle. In 2014, families and school districts sued the state for failing to provide a sufficient and uniform education as guaranteed by the state constitution. The consolidated cases of *Yazzie/ Martinez v. State of New Mexico* alleged that this failure especially affected students of color, low-income students, English language learners, and students with disabilities. In 2018, the district court judge presiding over the *Yazzie/Martinez* case issued an order mandating the state to craft a remedy, but a pandemic, a budget crisis, and genuine disagreements about what the remedy should look like have hampered progress. Since the *Yazzie* decision, the legislature has increased annual recurring education appropriations by more than a billion dollars (LFC program evaluation unit 2022). Nonetheless, worsening student achievement caused in part by pandemic-related disruptions and the lack of basic reliable access to IT infrastructure has stymied progress in this area. The 2023 legislative session offered up a basket of remedial changes ranging from early interventions, to literacy training, to extended learning, and expanded special education and alternative learning materials. This kitchen sink approach was accompanied by substantial pots of money. In the end, the legislature opted for an all-the-above approach while also appropriating \$4.13 billion for public school support and another \$48.5 billion in “other” education funding (Highlights 2023).

In addition to K-12 funding, New Mexico has appropriated significant amounts of money to pre-K projects in recent years and 2023 was no different. Expanded pre-K opportunities have been the push of the governor and seen as one partial remedy to the *Yazzie* court findings. Early on, the legislature recommended increasing general fund appropriations for FY24 by \$140 million, or nearly 72 percent, including \$109.4 million to expand pre-K services, \$8 million for home

visiting supports for new families, and \$22.6 million to replace federal Temporary Assistance of Needy Families (TANF) funding (LFC 2023).

Last, but not least, higher education rounds out the education trifecta in New Mexico and state budget crafters appropriated over \$1.2 billion toward higher education for FY24. Higher education represents over 12% of the overall state budget and, overall, higher education funding increased over 18% percent over FY23. While much of higher education funding goes to running the state colleges and universities, the governor continues to pursue her “Opportunity Scholarships” with the goal of making college accessible to almost any state resident. These scholarships were fully funded in the final higher education appropriation to the tune of \$146 million. Almost all students graduating from New Mexico high schools are already covered by the Lottery Scholarship, a longtime scholarship program that covers most of the tuition at state universities and community colleges. The Opportunity Scholarship program picks up almost everyone else, hoping to provide almost all New Mexico residents with the opportunity to complete a university level education.

Health Care

While education funding comprises the majority of New Mexico’s annual budget, health care costs (mostly Medicaid) always account for a significant portion of the state budget. New Mexico is a poor state with a poverty level of 18% in 2022, making it the third highest poverty state in the nation (Nathanson 2022). It is children that bear the brunt of this with a quarter of New Mexico’s children living in poverty (Voices for Children 2022). These poverty rates translate directly into increased health care costs as a large percentage of New Mexicans are enrolled in the state’s expanded Medicaid program. Medicaid covers 34% of New Mexicans including 2 in 7 adults, 5 in 9 children, and 7 in 10 nursing home residents (Kaiser Family Foundation). It should be noted, many of the people on Medicaid are the working poor. The Kaiser Foundation reports that 63% of adults on Medicaid are working.

Even though the federal government covers much of the cost of Medicaid, the state portion is not insignificant. In 2023, it is expected to be 15% of the state budget with \$1.46 billion appropriated for FY24. Pre-session legislative recommendations included an increase in general fund support for the state’s Medicaid program in FY24. At the close of the legislative session, the General Appropriation Act included an additional \$250 million or a 21% increase in the Medicaid budget.

While most budget discussions on health care revolve around the state’s Medicaid expenditures, legislators also devoted a lot of time to the issue of health care access. New Mexico has significant health care provider needs and it is significantly underserved. In fact, 32 of New Mexico’s 33 counties are designated federally as health professional shortage areas (Sanchez 2023). The situation is getting worse as many of New Mexico’s doctors near retirement age. Making matters more complicated, young doctors are leaving the state, reportedly as a result of legislative policies. High malpractice insurance premiums (significantly higher than surrounding states), low Medicaid reimbursement rates, and a gross receipts tax structure that imposes gross receipts taxes on physician services, combine to make it difficult to recruit and retain physicians

in the state. Amendments to the state Medical Malpractice Act in 2021 increased malpractice payout caps, increasing the vulnerability of independent physician practices. Late in the legislative session, legislative leaders brokered a deal to try to reduce malpractice rates for independent practitioners. Simultaneously, the budget was amended to include additional funding for increased Medicaid physician and facility provider reimbursements. The issue with gross receipts taxes was partially resolved by the end of the 2023 session with copays and deductibles now removed from physician's tax liability. Only time will tell if other legislative/executive attempts to fix these problems will succeed.

Public Safety

Crime rates and criminal justice concerns are part of many legislative discussions. In FY24, the state anticipates spending over half a billion dollars- more than 6% of the overall state budget on public safety. Convening an interim finance committee meeting in July 2022, legislators heard digested versions of the FBI's Uniform Crime Reports in New Mexico. New Mexico's violent and property crime rates have been falling since 2017 (property crimes) and 2019 (violent crime) but they still exceed national rates (Report to LFC, July 2022). At least 20 communities (including Albuquerque, home to many legislators), experienced increases in violent crime from 2016 to 2020. How to fix violent crime discussions often devolve into a debate between advocates for addressing poverty and mental illness versus those who advocate for tougher penalties and additional police resources. Added to the 2023 legislative session mix were large numbers of anticrime bills and gun control measures. Roughly 40 public safety bills were introduced, of which approximately 10 passed. Some of the governor's biggest priorities (an assault weapon ban, a 14-day waiting period on gun purchases, and increased age requirements) did not pass. The legislature did pass a gun storage law and enhanced penalties on organized retail crime (Chacon 2023). At the close the session, many concerned with crime were disappointed as most crime bills did not pass. However, the legislature did appropriate additional funding for public safety, increasing the Department of Public Safety budget by 8% over FY23. This included salary increases for public safety officers. It also provided additional funding for recruitment, retention, and training.

Tax Reform

Tax reform is the rally cry of every election season and that topic was front and center in the 2023 legislative session. Record state revenues, a healthy FY23 surplus, and long-term worries about economic sustainability framed the discussion. Multiple bills were introduced advocating tax rebates, tax bracket restructuring, and a reduction of the state's gross receipts tax. Many of these were eventually consolidated into omnibus tax legislation. Lawmakers voted through a \$1.1 billion tax reform plan, handing out \$500 individual tax rebates, tax credits of up to \$600 per child, a phased in reduction of the state gross receipts taxes, and new incentives for the film industry estimated at \$90 million a year. Much of the omnibus bill did not survive the governor's veto pen and the governor took the opportunity to partial veto a number of the tax changes. Tax rebates, expanded child tax credits, gross receipts tax deductions for medical services, and expanded film credits all survived the governor's actions (Highlights 2023).

While tax reform discussions frequently focus on income tax and gross receipts changes, in New Mexico, any discussion of taxes must include consideration of the state's severance taxes. Severance taxes, taxes placed on the severance of natural resources from the state, have a long history in New Mexico, going back to the creation of the severance tax permanent fund fifty years ago (in 1973). Over fifty years, the state has built an impressive permanent fund while providing for a flow of distributions from the permanent fund to the yearly appropriated general fund. The state has long relied on the success of the oil and gas industry and the state's finances have suffered when that industry has declined. Even those familiar with this boom and bust cycle should be impressed by the boom in recent years. Oil and gas revenues generated over \$4 billion in New Mexico in 2021 and 2022, and are expected to deliver upwards of \$5 billion in 2023 (Highlights 2023). On top of that, New Mexico production continues to skyrocket, outpacing its traditional competitors; currently it is second only to North Dakota for per capita production.

Entering the 2023 legislative session, legislators faced an unprecedented tax surplus. Record oil and gas revenues were flowing into state funds and discussions about how to stabilize New Mexico's boom and bust budgeting were occurring in multiple quarters. Legislation introduced and passed in 2023, takes a step in that direction. A trifecta of finance bills carried that plan forward. The first, the General Appropriations Act, (House Bill 2, as amended), transferred almost half a billion dollars (\$475 million) from the general fund to the severance tax permanent fund. A second bill, Senate Bill 378, provides for transfers of at least \$92 million a year from the severance tax bond fund to the permanent fund every year for 10 years (unless some economic conditions occur). A third bill, Senate Bill 26, created a mechanism to rebuild the permanent fund and stabilize the general fund by creating new distributions to that fund, from windfall oil and gas collections (Highlights 2023).

The ultimate impact of these severance tax bills is highly dependent on the fate of oil and gas production. The goal appears to steadily divert money into the permanent fund for the next 10 years with the hope that, by the time the state reaches the late 2030's, the flow out of the permanent fund will provide a more stable long term revenue stream available for annual appropriation.

Tax changes have a direct impact on the state budget and severance tax changes, tax reductions, and tax rebates were made possible by the current state surplus. Boom and bust budgeting has long been a way of life in New Mexico; legislators and state workers do not need to have long memories to know to be wary of relying on the longevity of booming oil production. This year, lawmakers chased financial stability down multiple paths. In the area of taxes, lawmakers attempted to stabilize the long-term flow of oil and gas revenues into state coffers.

Capital Projects

Capital projects, big and small, are among the most important parts of every legislative session. Inevitably, a large current year surplus provides an opportunity to fund capital outlay requests with one time money. Prior to the session, capital outlay requests from state agencies, judicial entities, higher education institutions, and special schools totaled more than \$1 billion (LFC

2023). Legislators, returning to the capitol in January 2023, added their local requests to the menu and the result, passed in the closing days of the session, was a \$1.2 billion pork barrel bill. That bill (HB 505) contains upwards of 1500 projects ranging from acequia projects, hiking and biking trails, and road upgrades, to athletic fields and a new state airplane (with a price tag of \$9 million) (Nott 2023).

Pork barrel bills come with their own sets of controversy. Going into the session, the Legislative Finance Committee acknowledged challenges with previously unspent money on thousands of current pending projects and construction delays driven by inflation and supply constraints. Add to that, the legislative capital outlay selection process allows legislators enormous discretion in their ability to “select” projects for funding. The selection process alone has been the subject of multiple discussions and reform efforts. These concerns did nothing to slow the legislators’ enthusiasm for spending a portion of the current year surplus on over a thousand new capital projects.

Conclusion

The 2023 regular legislative session adjourned in March 2023. By the end of the session, legislators had appropriated \$9.6 billion in public money toward the running of government in New Mexico in the FY24 fiscal year. That budget represents a healthy 13% increase over the prior year budget and a recognition of the expanding importance of New Mexico’s most significant contributor to state coffers - oil and gas production. Legislators in 2023 voted to expand educational opportunities, provide for health care and public safety, recruit new workers and reward old ones. Lawmakers used much of their surplus to build infrastructure projects large and small. Since this was a “long session,” lawmakers also debated the cultural issues of the day in everything from expanded voter opportunities to protection of abortion access to gun control legislation. Perhaps most importantly, lawmakers took steps to eventually stabilize New Mexico’s future revenue streams by increasingly diverting oil and gas surpluses into the permanent fund with the hope of providing stable and predictable distributions in the years to come.

By most standards, the 2023 legislative session was and New Mexico’s financial outlook is positive as the state rides the crest of a wave of fossil fuel generated income. But, just below the surface, the waters are turbulent. Going forward, New Mexico faces a number of difficult dilemmas.

First, in a moderately progressive, Democratically controlled state, elected leaders and voters are environmentally conscious. Building budgets year after year on the backs of fossil fuel production puts lawmakers in an awkward spot. While leaders advocate alternative energy solutions, it is oil and gas production that props up the state budget and current financial expansion.

Second, the boom-and-bust budgeting that accompanies oil and gas revenue makes long term financial planning difficult. Budgeting healthy reserves and enacting conservative budgets leaves a cushion that usually accommodates fluctuations in the market. Unfortunately, in good years,

the surplus that remains provides a tempting pot of one-time money that often goes to fund ill thought out and untenable capital outlay projects.

Third, the financial windfalls of the moment have enabled the state to try “all the above” solutions to the big governance questions of the day. Lawmakers have significantly increased appropriations and made policy changes to try to move the needle on public education, healthcare, and public safety. Unfortunately, in funding multiple solutions at once, it is sometimes difficult to determine what works and what doesn’t. Fortunately, in 2023, New Mexico had the ability and will to try, as the state sits happily on the crest of a wave of financial success.

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