

State revenues tracking more than \$500 million above December estimate

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Thanks in large part to a booming oil and gas industry, New Mexico's unprecedented revenue windfall is exceeding expectations by more than a half-billion dollars.

Revenues for fiscal year 2023, which ends June 30, are tracking about \$581 million above December estimates, according to a presentation to lawmakers Thursday.

"Interestingly enough, a recent survey from the Tax Policy Center came out and showed that New Mexico was estimating the largest revenue growth in the country at about 15%, and the next-largest estimate was half of that," Ismael Torres, the Legislative Finance Committee's chief economist, told legislators on the interim Revenue Stabilization and Tax Policy Committee.

Torres said personal income taxes primarily coming from oil and gas withholding taxes are driving the growth.

"This [increase in personal income taxes] is related to the oil and gas industry, which, as we all know, is continuing to boom, and that's also contributing to larger collections in GRT [gross receipts taxes] and in corporate income taxes," he said.

Although not affected by oil and gas, investment income is on track to exceed December estimates by nearly \$150 million as interest rates continue to rise and the state's general fund balances grow, Torres said.

"The return on those general fund balance investments is quickly outpacing our expectations, so we know our revenues are continuing to climb ... more than half a billion higher than where we thought we would be in December," he said.

A general fund revenue tracking report written in May says revenues for fiscal year 2023 "are showing continued strength after a record-breaking" fiscal year 2022 for several reasons.

"First, persistently high inflation and a tight labor market are pushing incomes and consumption to record levels," the report states. "Second, large cash reserves and savings are keeping consumer spending aloft, even in the face of a possible recession and stubborn inflation. Lastly, oil and gas production has continued to soar as strong demand and supply-side constraints incentivize robust activity in the Permian Basin."

Charles Sallee, the Legislative Finance Committee's interim director, described the higher-than-projected revenues as "surplus money" that builds up in the current fiscal year and then is used for one-time spending in the future.

"Our reserves are going to be higher than what our target was by a lot — by that extra \$500 million, plus the money that [Gov. Michelle Lujan Grisham] vetoed out of the tax package," he said.

The tax package passed by the Legislature during the 60-day session earlier this year would have reduced recurring revenue by \$1.1 billion by fiscal year 2027. However, the governor's vetoes of parts of the tax package reduced the reduction in recurring revenue to \$237 million, said Jennifer Faubion, a Legislative Finance Committee economist.

This remains a sore subject for some lawmakers.

"Obviously, there's frustration with the veto of the tax package," Senate Majority Leader Peter Wirth, D-Santa Fe, said during Thursday's meeting.

But Wirth said the tax package can serve as a "road map" in the future.

"The work that we all did in laying this out are pieces that can be put into a new tax package," he said. "But what has to happen, though, is we've got to get the LFC and the governor and [the Department of Finance and Administration] on the same page when it comes to the size of the package, because that's my understanding [of] why we ended up with this veto."

After the governor's line-item vetoes, only four provisions were left, including a one-time tax rebate of \$500 for single filers and \$1,000 for couples filing jointly.

"That should all be disbursed in June, or most of it," Faubion said. "They're ready to go as soon as basically it comes into law."