

The Pew Charitable Trusts' 2023 report "Tools for Sustainable State Budgeting" examines whether and how states are using long-term budget assessments and budget stress tests to measure and strengthen their fiscal outlooks.¹ This is one of 20 fact sheets describing the approaches of and opportunities to improve for each state that produces at least one of these analyses.²



New Mexico: Tools for Sustainable State Budgeting

Long-term budget assessment: ✓	Budget stress test: ✓
Report: "Mid- to Long-Term Revenue Options" ³	Report: "General Fund Consensus Revenue Estimate" ⁴
Office: Legislative Finance Committee	Office: Consensus Revenue Estimating Group

Analyses

Recognizing that the state's volatile, oil-price-dependent revenue collections contribute to an uncertain fiscal outlook, New Mexico conducts multiple analyses to ensure that the state is on a sustainable budgetary path.

In recent years, forecasts from the Consensus Revenue Estimating Group (CREG)—a body made up of representatives from the Legislative Finance Committee (LFC) and three executive branch agencies—have also included a budget stress test.⁵ These analyses estimate how revenue collections would diverge from expectations under three scenarios: a general economic downside scenario, an economic upside scenario, and a low oil price scenario.⁶

Additionally, the LFC and the Department of Finance and Administration have regularly produced long-term revenue and spending projections, but these historically have not included narrative discussion of the factors driving the numbers.⁷ In 2022, however, LFC staffers presented to legislators an analysis that not only explained when and why New Mexico could face structural deficits, but also offered strategies to help solve the problem.⁸ In the presentation—which projected revenue and spending through 2050—the LFC forecast regular deficits beginning in about 15 years as a result of declining oil production.⁹

Policy impact

In 2023, lawmakers implemented one of the strategies the LFC identified to help prevent the looming structural deficits. They took about \$700 million from the state’s temporary surplus and directed it to endowments and trusts funds, effectively turning one-time money into ongoing sources of revenue because of the endowments and trusts funds’ investment earnings.¹⁰ In this way, New Mexico policymakers acted to reduce a structural deficit more than a decade before it was expected to begin.

Likewise, the stress tests have helped New Mexico legislators determine how large reserves should be to prepare for economic downturns. For example, in January 2023 the LFC recommended general fund reserves equal to 30% of recurring appropriations, based in part on CREG’s stress test from a month earlier.¹¹ After lawmakers enacted a new state budget that spring, the LFC reported that the state was on track to exceed that target in fiscal 2023 and 2024.¹²

Next steps

CREG’s stress tests focus only on revenue, not spending. To avoid underestimating the state’s risk in a recession, New Mexico could add analysis of how much such events would increase the costs of means-tested programs such as Medicaid.

Given the success of the LFC’s multidecade structural balance projections in informing policy decisions, the state should repeat this analysis regularly to track progress on addressing structural deficits. The LFC is already moving in this direction; it presented a second edition of the analysis to legislators in July 2023.¹³

Endnotes

- 1 The Pew Charitable Trusts, "Tools for Sustainable State Budgeting" (2023), <https://www.pewtrusts.org/en/research-and-analysis/reports/2023/11/tools-for-sustainable-state-budgeting>.
- 2 The Pew Charitable Trusts, "States' Use of Sustainable Budgeting Tools" (2023), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2023/11/states-use-of-sustainable-budgeting-tools>.
- 3 New Mexico Legislative Finance Committee, "Mid- to Long-Term Revenue Options" (2022), <https://www.nmlegis.gov/handouts/ALFC%20072022%20Item%207%20Mid-%20to%20Long-Term%20Revenue%20Options.pdf>.
- 4 New Mexico Legislative Finance Committee, "General Fund Consensus Revenue Estimate: December 2022" (2022), 9-12, https://www.nmlegis.gov/Entity/LFC/Documents/Revenue_Reports/General_Fund_Revenue_Forecast/2022/Consensus%20Revenue%20Estimate%20-%20December%202022.pdf.
- 5 Ibid., 1, 9-12.
- 6 Ibid., 11-12.
- 7 New Mexico Legislative Finance Committee, "Legislating for Results: Post-Session Review" (2023), 66, https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Post_Session_Fiscal_Reviews/May%202023.pdf; New Mexico Department of Finance and Administration, State Budget Division, "State of New Mexico Executive Budget Recommendation FY24" (2023), 159-60, <https://www.nmdfa.state.nm.us/wp-content/uploads/2023/01/Fiscal-Year-2024-Executive-Budget-Recommendation.pdf>.
- 8 New Mexico Legislative Finance Committee, "Mid- to Long-Term Revenue Options."
- 9 Ibid., 5, 8-10.
- 10 D. Abbey, former director, New Mexico Legislative Finance Committee, email to Josh Goodman, The Pew Charitable Trusts, April 6, 2023.
- 11 New Mexico Legislative Finance Committee, "Legislating for Results: Policy and Performance Analysis" (2023), 16, https://www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Budget_Recommendations/2024RecommendVol.pdf.
- 12 New Mexico Legislative Finance Committee, "Legislating for Results: Post-Session Review," 7-8.
- 13 New Mexico Legislative Finance Committee, "Balancing Mid- to Long-Term Revenues and Expenditures" (2023), <https://www.nmlegis.gov/Handouts/ALFC%20071823%20Item%202%20Balancing%20Mid-%20to%20Long-Term%20Revenues%20and%20Expenditures.pdf>.

For more information, please visit: pewtrusts.org/fiscaltools

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