

General Fund Consensus Revenue Estimates

**Katherine Miller, Cabinet Secretary
N.M. Department of Finance and Administration**

and

**Rick Homans, Cabinet Secretary
N.M. Taxation and Revenue Department**

**Presentation to the
Revenue Stabilization and Tax Policy Committee
August 27, 2008**

Introduction:

Today's revenue update reflects a modestly expanding state economy embedded in a national economy that is trying to recover from a number of woes: the collapse of the "housing price bubble," housing mortgage foreclosures, a credit crunch, high food and energy prices and the continued weakness of the dollar. The consensus among economists is that the national GDP will have two consecutive quarters of negative growth in 2008:Q4 and 2009:Q1. The federal fiscal stimulus rebates delayed the decline, but did not dramatically reverse the path of the national economy. The key factor in this update to the revenue forecast is that the increases in natural gas and crude oil prices for FY09 and FY10 are expected to be more moderate than previously reported to the LFC and this committee in the July consensus forecast. These more moderate expected price increases have required a modest decrease in the revenue estimate for FY10, but a significant downward revision to expected FY09 revenues. The revised forecasts for FY11 through FY13 have modestly increased, primarily due to small upward revisions to the forecasted volume of natural gas production. Estimated revenues for FY08 are expected to exceed the December 2008 forecast by at least \$9 million.

The revenue forecasts reported this morning are the July revenue forecasts updated to reflect new information concerning FY08 actual revenues, the effect on revenues of more moderate expected increases in oil and natural gas prices than reported in July and a change in both expected oil and natural gas production volumes. Aside from the slight downward revisions to estimated corporate income tax revenues for FY09 and FY10, this revenue update does not adjust any other taxes or fees for the forecast period of FY09 through FY13. The effect of legislation passed in the 2008 Special Session are not reflected in this update, but are taken into account in the General Fund Financial Summary discussed later in this presentation.

The consensus forecast group, consisting of the career economists in the Legislative Finance Committee, the Department of Finance and Administration, the Taxation and Revenue Department and the Department of Transportation will prepare a full forecast in early October and again in early December, just prior to the 2009 legislative session. The consensus group will conduct a mid-session review just before the midpoint of the session, as well.

The updated August revenue forecast and the changes relative to the July 2008 forecast and the December 2007 budget forecast are shown in Table 1. Since the July forecast, the predicted recurring revenue for FY09 has decreased by \$203.1 million, and the FY10 forecast was lowered by \$18.8 million. It is important to note that the August forecast remains substantially higher than the December forecast for both years. The FY11, FY12 and FY13 forecasts have increased significantly from the July forecast. Non-recurring revenues have not changed and Table 1 reports only recurring revenues.

Table 1: August 2008 Forecast Changes						
(Million dollars)	FY08	FY09	FY10	FY11	FY12	FY13
Recurring Revenues						
December Forecast	\$5,902.3	\$6,045.5	\$6,226.1	\$6,381.7	\$6,547.1	
July Forecast	\$5,896.6	\$6,444.4	\$6,418.9	\$6,524.2	\$6,737.8	\$6,959.2
August Forecast	\$5,910.6	\$6,241.2	\$6,400.1	\$6,575.1	\$6,815.9	\$7,058.2
Change July to August	\$14.0	-\$203.1	-\$18.8	\$50.9	\$78.1	\$99.0
Change from December forecast	\$8.3	\$195.8	\$174.0	\$193.4	\$268.8	
New Money						
July Forecast			\$392.1			
August Forecast			\$373.3			
Change July to August			-\$18.8			
Balances in Excess of 10%						
July Forecast		\$392.5				
August Forecast		\$207.6				
Change July to August		-\$184.9				

The number reported in this table for “Balances in Excess of 10%” differs from the amount reported in Appendix Table 3 as “Nonrecurring subject to appropriation” because of actions taken in the course of the August Special Legislative Session. Prior to the August Special Session, this amount was \$207.6 million as shown here. After posting all the potential action from the Special Session, FY09 non-recurring balances available for appropriation would be \$99.2 million, as shown in Appendix Table 3.

The current estimate of FY10 severance tax bond (STBF) capacities has decreased by about \$12 million since the July forecast, due primarily to the near-term decreases in the oil and natural gas price estimates compared to July. Bond capacity for FY11 is about \$15 million more than the July estimate. Capacity for FY12 and FY13 has also increased significantly as a result of the expected relative increase in the volume of natural gas produced in the state.

Table 2 – Severance Tax Bond Capacity August 2008 (millions)

Capacity by Fiscal Year	2009		2010		2011		2012		2013	
	Jul 08	Aug 08	Jul 08	Aug 08	Jul 08	Aug 08	Jul 08	Jul 08	Jul 08	Jul 08
Senior STB Capacity										
Long-term STB Bonds Issued	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Annual Sponge	188.7	188.7	339.4	290.2	255.2	248.9	197.8	216.3	162.2	180.4
Annual Capital Capacity	388.7	388.7	539.4	490.2	455.2	448.9	397.8	416.3	362.2	380.4
Supplemental STB Capacity										
Supplemental Sponge	240.4	240.4	291.2	327.8	292.1	313.6	290.3	306.9	288.6	305.0
Annual Supplemental STB Capacity	240.4	240.4	291.2	327.8	292.1	313.6	290.3	306.9	288.6	305.0
Total Capital Capacity	629.1	629.1	830.6	818.1	747.3	762.6	688.1	723.2	650.8	685.4

The Consensus Revenue Estimating Process:

Before discussing the details of this forecast update, we would like to discuss the process by which these forecasts are prepared. The consensus forecast group consists of career economists on staff at the Legislative Finance Committee (LFC), the Department of Finance and Administration (DFA), the Taxation and Revenue Department (TRD) and the Department of Transportation (DOT). DFA has prepared the following sidebar that puts this estimate into historical context and provide a glimpse of the technical challenges facing the consensus estimators in trying to arrive at the best, most accurate estimate that uses the most reliable information available at the time the estimate is prepared. This description is not a product of the consensus revenue estimating group. It is primarily the product of the “dean” of the revenue estimating process – Laird Graeser – who has participated in 52 of the of the forecasts.

The Consensus Revenue Estimating Process:

This estimate is approximately the 88th formal consensus forecast created by the career economists from the Legislative Finance Committee, the Department of Finance and Administration, the Taxation and Revenue Department and the Department of Transportation. The formal consensus process began in the late 1970s, when the FOR-UNM macro economic service at UNM’s Bureau of Business and Economic Research was inaugurated. Familiar names have been involved in this process over the years, including David Abbey, James Jimenez, Bill Taylor, Al Maury, Robert “Bo” Olcott, Charles Turpin, Jim O’Neill, Janet Peacock, Jim Nunns, Carolyn Lindberg, Laird Graeser, Tom Clifford and Melissa Vigil. Eighty-eight forecasts over 30 years is, as far as can be determined, the longest-running tenure in any state of a joint legislative-executive baseline forecast. Two points should be emphasized:

- (1) the economists are all career state employees, most of whom are classified and protected by the civil service code; and
- (2) the process is truly consensus; all participants must agree to the final results.

The consensus group adheres to a standard that the best model and best argument are weighted more heavily in the final outcome, but no model is unchallenged. For most revenues, at least two models or forecast sources are run in parallel. For example, to determine the forecasted prices for natural gas, the revenue estimators consult the following:

- (1) the Department of Energy, Energy Information Agency's (DOE/EIA) short term forecasting model;
- (2) price forecasts modeled by PIRA (formerly the Petroleum Industry Research Association);
- (3) Global Insight (GI), the state's choice for the national macro forecast; and
- (4) the New York Mercantile Exchange (NYMEX) "strip" for the relevant months.

Several critical adjustments to each of these price forecasts are required to estimate the natural gas price per MCF and net taxable value that will be reported by New Mexico's producers. These adjustments include:

- (1) Some prices are reported on an MMBTU basis (million British Thermal Units); others on an MCF basis (thousand cubic feet). These only differ by 3% ($\text{price/MMBTU} \times 1.03 = \text{price per MCF}$), but the difference can be critical.
- (2) NYMEX price for future delivery are related to, but substantially different than, the spot price. A substantial fraction of natural gas produced in New Mexico is sold on a "floor plus index" basis. That is, the floor amount plus the index is less than spot price on any given day, but as the market (spot) price moves, the contract price also moves up and down. For this August forecast, our models implied that the 3% correction to NYMEX MMBTU prices just covered the difference between Henry Hub contract futures price and the estimated ON-GARD New Mexico MCF price. This has not generally been true, but seemed to be true for this estimate.
- (3) Oil and natural gas royalties on production on federal and state lands are increasing for new wells. In addition, the old federal stripper well royalty rates seem to be a thing of the past. As royalties increase, tax deductions also increase, resulting in lower tax revenues, but higher total revenues;
- (4) Over a substantial period of time, the net taxable value reported on the 45th day after the end of the month of production is only 94% of the final value that will be reported. Using the "sales month" data, rather than the distribution month data for estimates results in lower estimates of volumes and net taxable value. Using the distribution month data, however, removes some of the linkages between the prices as published by DOE/EIA or GI and the amounts reported in ONGARD.

Similar lengthy discussions occur for the price and production of crude oil, corporate and personal income taxes, state land office income, the gross receipts and compensating taxes, the motor vehicle excise tax and other General Fund revenue sources.

Review of the Economy:

The U.S. economy shows continued weakness. Excerpts from the Global Insight August forecast highlights are included in the box below. GI expects a mild recession – primarily occurring during the end of 2008 and the beginning of 2009. Although we will not know for some time whether the combination of more than six months of job losses, three quarters of negative GDP growth (2007:Q4, 2008:Q4

and 2009:Q1) and well above target inflation will constitute a technical recession,¹ virtually all national economists believe the US is currently in a mild recession.

¹ The official determination of a recession is made by the National Bureau of Economic Research (NBER). "The NBER does not define a recession in terms of two consecutive quarters of decline in real GDP. Rather, a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." These four indicators peaked between October 2007 and January of 2008. However, the declines have been much less than during the 2001 recession – roughly half as much for sales and around one-sixth as much for the other indicators. Source: NBER (<http://www.nber.org/cycles.html>) and Global Insight, August 2008 forecast summary.

Global Insight's View of the U.S. Economy – August 2008 (Excerpt)

By Nigel Gault

Highlights

- The decline in real GDP that we feared for the first half of the year has been avoided – but we believe it has merely been postponed.
- Fiscal stimulus has been supporting the economy at midyear, but we expect a payback, with growth negative in both the fourth quarter of 2008 and the first quarter of 2009.
- Housing has not yet hit bottom and consumer spending power is being squeezed by high energy and food prices. The export outlook has been preventing a worse downturn, but some foreign economies are now slowing down sharply.
- The inflation forecast has become less worrying, given the recent slide in oil prices, but we still expect consumer price inflation to average more than 5% in the second half of the year.
- Inflation fears have caused the Fed to halt its rate-cutting campaign, but we expect no rate hike until 2009.

First Half Better Than Feared: The economy did better than expected in the first half of the year, managing an average growth pace of 1.4%. Although domestic demand fell, some of that weakness was passed on to the rest of the world via lower imports, while exports climbed higher. **But the economy is far from out of the woods.** The housing downturn is not over, and nor is the financial crisis – as the July panic over Fannie Mae and Freddie Mac made clear. Credit conditions are continuing to tighten, with the latest Federal Reserve survey of bank loan officers showing a particularly marked tightening in standards for consumer loans.

By many measures, this downturn is milder than the previous two – so far: The recent data on the U.S. economy have been mostly bad. Unfortunately, the media hype suggests that things are a lot worse. The reality is that, despite being pummeled by two big shocks (the housing/subprime crisis and high oil prices) and consumer confidence being very low, the economy is suffering through a downturn that is likely to be milder than the 1990-91 recession and as mild, if not milder, than the 2001 recession. Amidst all the doom and gloom about housing, the credit crunch, and high oil prices (although there has been considerable relief in recent weeks), a look at some hard numbers reveals a somewhat more benign picture.

- Global Insight expects one quarter of small negative growth of real GDP in fourth-quarter 2007 followed by two quarters of positive growth will again turn negative in the fourth quarter of 2008 and the first quarter of 2009. The declines, however will be about -.5%. Compare this to real GDP declines of 3.0% and 2.0% during the trough of the 1991 recession.
- Employment: average monthly payroll job losses between January and July of this year have been 66,000. This is much lower than the 147,000 average monthly declines during the recession of 1990-91 and the 181,000 declines during the recession of 2001.

Bottom Line:

This downturn is likely to be one of the mildest – if not *the* mildest on record. Nevertheless, the last two recessions were followed by “jobless” and “job-loss” recoveries. We are likely to see a similar pattern this time around.

New Mexico is not in recession, nor is it likely to have any quarters of overall job losses – the primary criterion of regional recession. However, job growth has slowed and there are other issues confronting the New Mexico economy.

- Job growth has slowed in New Mexico, from over 3% in mid 2006 to 0.9% as of July 2008. Wyoming, Texas, Colorado and Oklahoma grew faster than New Mexico in the region for the period July 2007 to July 2008, while New Mexico grew faster than Utah, California, Nevada and Arizona. The U.S. average growth for the July 2007-July 2008 period was -0.1%. New Mexico ranked 12th among all states in job growth for this period.

- Unemployment in New Mexico averaged 3.5% in 2007, and has increased this year to 4.1% in July. This is an increase from the 3.5% rate in July 2007, but well below the National unemployment rate of 5.7%.
- Residential building permits declined over the past two years in New Mexico by about 35%, from 14,180 units in 2005 to 9,239 in 2007. Over the same period, residential permits nationwide declined at nearly the same rate, 36%. In the first quarter of 2008, building permits declined further in New Mexico, by 27% from the first quarter of 2007. However, the national decline was 36%.
- Foreclosures decreased by 26% in New Mexico between 2006 and 2007, while foreclosures increased 75% nationally during the same period. In the second quarter of 2008, foreclosures increased by 60% over the second quarter of 2007 in New Mexico, while the increase nationwide was 121%. The foreclosure rate in May in New Mexico was one in every 739 homes – less than 1/4th of the national rate of one in every 171 homes.
- The House Price Index maintained by The Office of Federal Housing Enterprise Oversight (OFHEO) was up 3.4% for New Mexico between the first quarter of 2007 and the first quarter of 2008. The corresponding figure for the U.S. as a whole was a decline of 0.03%.
- New Mexico's fiscal situation is significantly better than most state's. The Center on Budget and Policy Priorities (CBPP) reports that at least 29 states plus the District of Columbia, including several of the nation's largest states, faced or are facing an estimated \$48 billion in combined shortfalls in their budgets for fiscal year 2009 (which begins July 1, 2008 in most states.) Three other states expect budget problems in fiscal year 2010.

FY 2008 Revenue Update:

Total General Fund revenues for FY08 are expected to be quite close to the December forecast with weakness in the broad-based taxes balanced by strength in severance revenues. Appendix Table 2 details by revenue source these FY08 differences (and the FY09 through FY13 forecasts). It should be emphasized that DFA has not closed the books on FY08. Unaudited actual receipts have been posted

Revenue Source	July 2008	August 2008	Change
Gross receipts and compensating taxes	(\$49.0)	(\$64.0)	(\$15.0)
Selective excise (sales) taxes	(\$10.8)	(\$2.0)	\$8.8
Personal and corporate income taxes	(\$56.8)	(\$20.1)	\$36.7
Mineral production taxes, federal mineral leasing, state land office income	\$127.1	\$122.0	(\$5.1)
Investment income	(\$24.1)	(\$30.4)	(\$6.4)
All other sources	\$8.1	\$3.1	(\$5.0)
Total	(\$5.5)	\$8.5	\$14.0

through April accrual. Preliminary ONGARD results for May accrual are available and gross receipts tax and personal income tax withholding preliminaries are available through June accrual. There are, however, a number of revenue sources – particularly refunds – that will not be known with certainty until the final audit. Table 3 summarizes these differences. The column labeled “July 2008” shows the difference between the December 2007 budget forecast for FY08 and the July 2008 estimate. The column labeled “August 2008” shows the difference between the December 2007 budget forecast for FY08 and the current August 2008 estimate. The column labeled “Change” shows the change in the difference over the 30 days between estimates, which totals \$14 million.

Gross receipts and compensating taxes are the largest source of General Fund revenues, representing about 32% of the total recurring revenue. These taxes are expected to finish the year at \$1,910 million compared to the December forecast of \$1,974 million. This change is 3.2% of the original forecast, which will mean that these taxes will have grown only 0.4% from FY07 to FY08. Anticipating the discussion of the forecast in the next section, growth for FY09 is expected to be 4.9%, with a further growth of 3.9% expected for FY10.

Income taxes comprise about 26.5% of General Fund recurring revenues. Personal income tax collections (PIT) are expected to miss the December revenue forecast by about -1.0%. Personal income tax net receipts are expected to fall by 1.2% in FY09, primarily because of the final rate cut effective for tax year 2008. PIT revenues for FY10 are expected to grow by 4.6% over FY09. Corporate income tax, due to a number of factors, is expected to miss the December estimate by \$32.3 million, 7.9% under the December estimate. One of the factors affecting corporate income tax revenues is the strength of the Film Production Tax Credit, reflecting New Mexico’s success in developing its film industry. Approved

film production tax credits by year are shown in Table 4. It is expected that the level of credits will grow, but at a much slower pace, throughout the forecast period.

Selective excise taxes – particularly the motor vehicle excise tax – are sensitive measures of consumer sentiment. The category total is expected to miss the December estimate by \$2.0 million or less than .5% of forecast. This further bolsters the argument that the New Mexico economy will not become a victim of the national recession.

While the racino (gaming) tax is expected to miss the December forecast by a small amount, tribal revenue sharing continues to outperform estimates. For FY08, tribal revenue sharing is expected to exceed the December estimate by \$3.7 million, which is a little more than 2% stronger revenue growth than previously expected.

FY08 collections for the Oil and Gas School Tax are expected to exceed the December forecast by at least \$115 million.² Federal mineral leasing (royalty) payments are expected to exceed the December forecast by \$10.3 million (1.7%). This modest increase is the net of a number of technical factors, including the federal “sanding” provisions previously discussed with this Committee. The other oil and gas related revenues are tracking the December forecast quite well.

State Land Office General Fund distributions are expected to miss the December forecast by \$2.3 million. This is primarily attributable to slightly disappointing lease sale results and lower interest credited on revenues on short-term deposit with the State Treasurer. The federal funds rate for FY08 has fallen from the December forecast of 4.56% to 3.7%.

In addition to lower interest rates, the balances on deposit with the State Treasurer have fallen to about \$2.2 billion from a peak of over \$2.8 billion in July 2006.

FY09 through FY13 Revenue Forecasts:

The general revenue outlook has not changed since the July forecast, which is for near-term strong growth in the oil and gas-related revenues, followed by moderating (but still very high) oil and

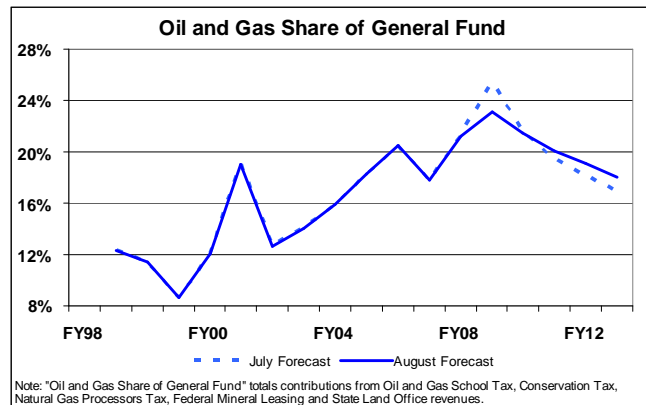
Table 4– Approved Film Production Tax Credits FY03-FY08 (through 6/26/08)						
	FY03	FY04	FY05	FY06	FY07	FY08*
Number of Approved Applications	4	8	13	35	34	52
Approved Film Credits (\$000)	\$1,220	\$3,405	\$2,073	\$10,742	\$17,578	\$46,030

* Through 6/26/08

² Appendix table 4 details DFA’s “flash estimate” of FY08 as of 8_22_08. The ONGARD collections for May accrual were published on 8_22_08 and this flash estimate includes the effect of this new data on Oil and Gas School Tax and Conservation Tax. With these modifications, DFA’s flash estimate is that actual revenues will exceed the December forecast by \$61 million. This is not a consensus flash. LFC’s flash is far smaller – mostly because of lack of information on PIT and CIT refunds.

gas prices and for moderate growth over the period in gross receipts, personal income, corporate income, motor vehicle excise taxes and investment income.

Appendix Table 1 details the assumptions that form the economic basis for the revenue estimates presented here. It is expected that FY09 will be the peak of the increase in both oil and



natural gas prices, with FY09 oil prices in New Mexico expected to average \$122 per barrel and natural gas prices to average \$9.60 per MCF. Although FY09 prices are expected to increase from FY08 levels, natural gas production is expected to decline at about a 1.3% per year rate. This is a somewhat slower decline rate than assumed in the July forecast. Oil production is expected to decrease at 2% per year over the forecast period, even though recent data indicates that FY08 volumes will slightly exceed FY07 volumes. Both of these volume assumptions are discussed further in the section "risks to the forecast." FY10 oil prices are expected to moderate to \$116 per barrel and natural gas is expected to fall to \$9.20 per MCF. With these revisions, the oil and gas share of the General Fund will peak at 23.1% in FY09, and thereafter decline to more typical levels, as shown in the chart to the right. Appendix Table 2 details the FY09 through FY13 forecasts.

Table 5 (next page) shows the details of the legislation that passed the August Special Legislative Session and has been signed or is awaiting the Governor's signature.

Appendix Table 3 shows the General Fund financial summary, including the effects of this Special Session legislation. This summary shows that, including these effects and assuming that all contingencies are met, there will be \$99.2 million in nonrecurring money available for appropriation in the 2009 session. This level of nonrecurring appropriation will maintain general fund balances at 10.0% of current year appropriations.

Risks to the Forecast:

- The principal risk to this forecast is the chance that the national economy will fall into more than a brief and shallow recession. This would, of course, affect the forecasts of gross receipts tax, personal income tax, corporate income tax and motor vehicle excise tax.
- If there is a deep national recession, it is also possible that federal revenues will soften and federal spending may be curtailed. New Mexico relies heavily on federal spending, receiving almost \$2 in federal spending of all kinds for each dollar in federal taxes paid by New Mexicans. If this ratio soft-

tens, the state might have to use General Fund recurring revenue to make up for softening federal grants and entitlements.

- Despite the high level of oil and natural gas prices forecast by the consensus group, some respected market observers believe prices will rise much further. The opposite effect is equally a concern -- that oil and natural gas prices may fall further than forecast in this update. Worldwide, bullish demand growth forecasts may fall because the faltering US economy may pull other nations down. Political instability, terrorism, insurrection and civil strife, which are an implicit part of world oil price forecasts, may moderate.

**Table 5 – 2008 Special Session Legislation Affecting
General Fund Appropriation Accounts**

(Dollars in thousands)

Revenue

Ch. No.	Bill No.	Title	Appropriation Account			
			Fiscal Year 2009		Fiscal Year 2010	
			R	NR	R	NR
	HB 4	Increase Working Families Tax Credit	(7,600.0)		(7,800.0)	
	S 24	Refundable Personal Income Tax Credit		(55,800.0)		
		Total Revenue	(7,600.0)	(55,800.0)	(7,800.0)	-

Appropriations

Ch. No.	Bill No.	Title	Appropriation Account			
			Fiscal Year 2009		Fiscal Year 2010	
			R	NR	R	NR
	H 2	School Bus Transportation Funding		4,000.0		
	H 10	2003 Road Projects Funding*				
	S 21	Low-Income Energy Assistance Program		1,900.0		
	S 22	Health Insurance Rates & Coverage		32,500.0		
	S 23	2008 General Election Costs		1,637.4		
	S 24	Refundable Personal Income Tax Credit		750.0		
	S 29	Repair Lincoln & Otero County Flood Damage		5,000.0		
		Total Appropriations	-	45,787.4	-	-

- There are some concerns about both oil and natural gas production levels. Natural decline rates for both existing oil and gas wells are near 10% per year. If the pace of replacement drilling falters, then the production base could fall far more rapidly than assumed in the forecasting models. A 1.3% decline in natural gas production is expected for the forecast period. Although the near-term crude oil production may be virtually constant, the longer-term expectation is for approximately 2.0% decline, net of replacement drilling. The 2% long-term decline rate has been assumed for FY09 through FY13. Appendix Table 5 details the changes in rig count from August 2007. There are 17 fewer rigs drilling for natural gas and 12 more rigs drilling for oil. Largely, this change consists of a decline in the San Juan basin and a corresponding increase in drilling in the Permian basin.

**APPENDIX TABLE 1: U.S. and New Mexico Economic Indicators
August 2008**

	FY2008		FY2009		FY2010		FY2011		FY2012		FY2013	
	July 08 Est.	Aug. 08 Est.	July 08 Est.	Aug. 08 Est.	July 08 Est.	Aug. 08 Est.	July 08 Est.	Aug. 08 Est.	July 08 Est.	Aug. 08 Est.	July 08 Est.	Aug. 08 Est.
NATIONAL ECONOMIC INDICATORS	2.1	1.8	0.4	0.7	3.7	2.9	3.5	3.1	3.0	2.9	2.5	2.4
US Real GDP Growth (% SAAR)	4.2	4.3	4.6	3.5	0.6	1.7	1.2	1.7	1.7	2.4	1.5	2.1
US Inflation Rate (CPI, %, SAAR)*	3.70	3.71	2.00	2.01	3.40	3.40	4.70	4.72	4.80	4.75	4.80	4.75
Overnight Yield (%)**												
NEW MEXICO LABOR MARKET AND INCOME												
NM Non-Agricultural Employment Growth (%)	0.9	0.9	1.1	1.1	1.5	1.5	1.5	1.5	1.7	1.7	1.6	1.6
NM Personal Income Growth (%)***	5.8	5.8	4.3	4.3	4.9	4.9	4.8	4.8	5.4	5.4	5.3	5.3
NM Private Wages & Salaries Growth (%)	4.4	4.4	3.8	3.8	5.2	5.2	3.8	3.8	4.8	4.8	4.7	4.7
CRUDE OIL AND NATURAL GAS OUTLOOK												
Oil Price (\$/barrel) Gross Sales Value	\$91.80	\$92.01	\$134.00	\$122.00	\$125.00	\$116.00	\$118.00	\$112.00	\$116.00	\$112.00	\$114.00	\$110.00
Taxable Oil Sales (million barrels)	60.3	60.7	61.5	60.0	62.1	58.8	62.1	57.6	62.1	56.5	60.9	55.3
Gas Price (\$ per thousand cubic feet) Gross Value	\$8.20	\$8.23	\$11.50	\$9.60	\$9.50	\$9.20	\$8.70	\$9.00	\$8.60	\$9.00	\$8.50	\$9.00
Taxable Gas Sales (billion cubic feet)	1,452	1,491	1,394	1,474	1,338	1,455	1,298	1,436	1,259	1,418	1,221	1,399

*CPI is all-Urban consumers.

**Overnight Yield = Federal Funds Rate

***Personal Income growth rates are for the calendar year in which each fiscal year begins.

Sources: July 2008 economic indicators based on July Global Insight (national), May 2008 FOR-UNM (state), oil and gas prices on June PIRA, NYMEX and July Global Insight.

APPENDIX TABLE 2: CONSENSUS REVENUE FORECAST

August 2008

(dollars in millions) (1)

	FY 2008				FY 2009				FY 2010			
	July 08	Aug 08	Chg from	% Chg	Jul 08	Aug 08	Chg from	% Chg	Jul 08	Aug 08	Chg from	% Chng
	Estimate	Estimate	Previous	From	Estimate	Estimate	Estimate	From	Estimate	Estimate	Estimate	From
			Estimate	FY07				FY08				FY09
Gross Receipts	1,861.0	1,846.0	-15.0	0.3%	1,937.3	1,937.3	0.0	4.9%	2,014.2	2,014.2	0.0	4.0%
Compensating	64.0	64.0	0.0	4.3%	65.5	65.5	0.0	2.3%	66.8	66.8	0.0	2.0%
Total General Sales Taxes	1,925.0	1,910.0	-15.0	0.4%	2,002.8	2,002.8	0.0	4.9%	2,081.0	2,081.0	0.0	3.9%
Tobacco	42.5	42.5	0.0	-9.1%	46.2	46.2	0.0	8.7%	46.2	46.2	0.0	0.0%
Alcohol	25.6	25.6	0.0	-4.2%	26.1	26.1	0.0	2.0%	26.6	26.6	0.0	2.0%
Insurance	103.0	109.6	6.6	1.5%	102.7	102.7	0.0	-6.3%	107.4	107.4	0.0	4.6%
Fire Protection Fund	19.1	19.2	0.0	-3.9%	18.0	18.0	0.0	-6.0%	16.4	16.4	0.0	-9.2%
Motor Vehicle Excise	130.0	130.1	0.1	-0.9%	133.0	133.0	0.0	2.2%	137.0	137.0	0.0	3.0%
Gaming tax	67.4	66.3	-1.1	-6.5%	66.8	66.8	0.0	0.7%	75.3	75.3	0.0	12.8%
Leased Vehicle Surcharge	6.6	6.9	0.3	15.0%	5.5	5.5	0.0	-20.2%	5.9	5.9	0.0	5.8%
Other (2)	2.7	5.6	2.9	82.1%	2.8	2.8	0.0	-50.3%	2.8	2.8	0.0	2.2%
Total Selective Sales Taxes	396.9	405.7	8.8	-1.8%	401.1	401.1	0.0	-1.1%	417.6	417.6	0.0	4.1%
Personal Income	1,120.0	1,160.0	40.0	-1.7%	1,140.0	1,140.0	0.0	-1.7%	1,193.0	1,193.0	0.0	4.6%
Corporate & Franchise Income	411.0	407.7	-3.3	-11.4%	399.0	393.0	-6.0	-3.6%	411.0	408.0	-3.0	3.8%
Estate	0.0	0.0	0.0	-100.0%	0.0	0.0	0.0		0.0	0.0	0.0	
Total Income Taxes	1,531.0	1,567.7	36.7	-4.4%	1,539.0	1,533.0	-6.0	-2.2%	1,604.0	1,601.0	-3.0	4.0%
Oil & Gas School Tax	542.6	543.1	0.4	29.2%	733.7	647.5	-86.3	19.2%	617.5	612.4	-5.1	-5.4%
Oil Conservation Tax	27.2	25.4	-1.8	27.6%	35.7	29.9	-5.8	17.7%	30.4	28.3	-2.2	-5.5%
Resources Excise	10.1	10.1	0.0	-6.2%	10.1	10.1	0.0	0.0%	10.1	10.1	0.0	0.0%
Natural Gas Processors	36.5	31.6	-4.9	-11.4%	37.9	32.0	-5.9	1.5%	47.0	44.5	-2.5	38.8%
Total Mineral Production Taxes	616.4	610.1	-6.2	25.4%	817.4	719.5	-97.9	17.9%	705.0	695.3	-9.7	-14.9%
Total License Fees	51.1	48.0	-3.1	-2.0%	52.6	52.6	0.0	9.6%	54.2	54.2	0.0	3.0%
Land Grant Permanent Fund	390.7	390.7	0.0	7.1%	433.7	433.7	0.0	11.0%	464.2	464.2	0.0	7.0%
Earnings on State Balances	54.9	48.5	-6.4	-27.0%	27.0	27.0	0.0	-44.3%	39.0	39.0	0.0	44.4%
Severance Tax Perm. Fund	177.2	177.2	0.0	3.6%	191.3	191.3	0.0	8.0%	199.4	199.4	0.0	4.2%
Total Investment Income	622.8	616.4	-6.4	2.4%	652.0	652.0	0.0	5.8%	702.6	702.6	0.0	7.8%
Federal Mineral Leasing	562.9	564.0	1.1	12.5%	747.4	660.4	-87.0	17.1%	619.6	618.0	-1.5	-6.4%
State Land Office	45.0	45.0	0.0	-10.7%	83.0	70.8	-12.2	57.3%	74.0	69.4	-4.6	-2.0%
Total Rents, Royalties	607.9	609.0	1.1	10.4%	830.4	731.2	-99.2	20.1%	693.6	687.4	-6.1	-17.2%
Total Miscellaneous Receipts	39.8	37.5	-2.3	1.3%	35.7	35.7	0.0	-4.7%	36.1	36.1	0.0	0.9%
Tribal Revenue Sharing	67.0	68.2	1.2	21.4%	73.0	73.0	0.0	7.1%	82.7	82.7	0.0	13.3%
Tobacco Settlement Revenue												
Reversions	38.8	38.0	-0.8	3.1%	40.3	40.3	0.0	6.1%	42.2	42.2	0.0	4.7%
Total Recurring Revenue	5,896.6	5,910.6	14.0	2.4%	6,444.4	6,241.2	-203.1	5.6%	6,418.9	6,400.1	-18.8	-0.7%
Adjustments & Non-Recurring	47.1	47.1	0.0		0.0	0.0	0.0		0.0	0.0	0.0	
Grand Total Revenue	5,943.7	5,957.7	14.0	3.2%	6,444.4	6,241.2	-203.1	4.8%	6,418.9	6,400.1	-18.8	-0.7%
Oil and gas share of General Fund	21.4%	21.3%				25.4%	23.1%			21.6%	21.4%	

(1) Detail may not add to column totals due to independent rounding.

(2) Other selective sales taxes include racing, private car, boat excise, gasoline excise, and telecommunications relay surcharge 3% administrative fee.

APPENDIX TABLE 2: CONSENSUS REVENUE FORECAST

August 2008

(dollars in millions) (1)

	FY 2011				FY 2012				FY 2013			
			Chng from	% Chng			Chng from	% Chng			Chng from	% Chng
	Jul 08	Aug 08	Previous	From	Jul 08	Aug 08	Previous	From	Jul 08	Aug 08	Previous	From
	Estimate	Estimate	Estimate	FY10	Estimate	Estimate	Estimate	FY11	Estimate	Estimate	Estimate	FY11
Gross Receipts	2,081.1	2,081.1	0.0	3.3%	2,165.8	2,165.8	0.0	4.1%	2,259.8	2,259.8	0.0	4.3%
Compensating	64.4	64.4	0.0	-3.5%	67.2	67.2	0.0	4.3%	70.1	70.1	0.0	4.3%
Total General Sales Taxes	2,145.5	2,145.5	0.0	3.1%	2,233.0	2,233.0	0.0	4.1%	2,329.8	2,329.8	0.0	4.3%
Tobacco	46.2	46.2	0.0	0.0%	46.2	46.2	0.0	0.0%	46.2	46.2	0.0	0.0%
Alcohol	27.2	27.2	0.0	2.0%	27.7	27.7	0.0	2.0%	27.7	27.7	0.0	0.0%
Insurance	112.3	112.3	0.0	4.6%	117.5	117.5	0.0	4.6%	123.0	123.0	0.0	4.7%
Fire Protection Fund	14.7	14.7	0.0	-10.1%	13.1	13.1	0.0	-11.2%	11.4	11.4	0.0	-12.6%
Motor Vehicle Excise	141.1	141.1	0.0	3.0%	145.3	145.3	0.0	3.0%	149.7	149.7	0.0	3.0%
Gaming tax	73.8	73.8	0.0	-2.1%	71.5	71.5	0.0	-3.1%	69.2	69.2	0.0	-3.1%
Leased Vehicle Surcharge	5.8	5.8	0.0	-1.9%	5.8	5.8	0.0	1.4%	5.8	5.8	0.0	0.2%
Other (2)	2.9	2.9	0.0	2.1%	2.9	2.9	0.0	0.0%	3.0	3.0	0.0	2.4%
Total Selective Sales Taxes	423.8	423.8	0.0	1.5%	429.9	429.9	0.0	1.4%	436.0	436.0	0.0	1.4%
Personal Income	1,263.0	1,263.0	0.0	5.9%	1,341.0	1,341.0	0.0	6.2%	1,428.0	1,428.0	0.0	6.5%
Corporate & Franchise Income	427.0	427.0	0.0	4.7%	450.0	450.0	0.0	5.4%	475.0	475.0	0.0	5.6%
Estate	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0	
Total Income Taxes	1,690.0	1,690.0	0.0	5.6%	1,791.0	1,791.0	0.0	6.0%	1,903.0	1,903.0	0.0	6.3%
Oil & Gas School Tax	561.6	588.7	27.2	-3.9%	543.6	580.3	36.7	-1.4%	522.2	568.4	46.2	-2.1%
Oil Conservation Tax	27.8	27.1	-0.7	-4.0%	27.0	26.7	-0.3	-1.5%	26.0	26.2	0.2	-2.2%
Resources Excise	10.1	10.1	0.0	0.0%	10.1	10.1	0.0	0.0%	10.1	10.1	0.0	0.0%
Natural Gas Processors	48.1	41.0	-7.1	-7.9%	40.4	40.8	0.4	-0.3%	37.2	39.3	2.0	-3.8%
Total Mineral Production Taxes	647.6	666.9	19.4	-4.1%	621.1	657.9	36.8	-1.3%	595.5	643.9	48.4	-2.1%
Total License Fees	57.1	57.1	0.0	5.5%	59.8	59.8	0.0	4.7%	61.6	61.6	0.0	3.0%
Land Grant Permanent Fund	495.2	495.2	0.0	6.7%	528.2	528.2	0.0	6.7%	563.4	563.4	0.0	6.7%
Earnings on State Balances	53.0	53.0	0.0	35.9%	65.0	65.0	0.0	22.6%	67.0	67.0	0.0	3.1%
Severance Tax Perm. Fund	207.5	207.5	0.0	4.1%	216.4	216.4	0.0	4.3%	225.7	225.7	0.0	4.3%
Total Investment Income	755.7	755.7	0.0	7.6%	809.6	809.6	0.0	7.1%	856.1	856.1	0.0	5.7%
Federal Mineral Leasing	560.7	592.2	31.6	-4.2%	540.8	582.0	41.2	-1.7%	518.3	568.9	50.6	-2.3%
State Land Office	72.0	72.0	0.0	3.7%	72.0	72.0	0.0	0.0%	72.0	72.0	0.0	0.0%
Total Rents, Royalties	632.7	664.2	31.6	-3.4%	612.8	654.0	41.2	-1.5%	590.3	640.9	50.6	-2.0%
Total Miscellaneous Receipts	36.4	36.4	0.0	1.0%	36.8	36.8	0.0	1.2%	36.8	36.8	0.0	0.0%
Tribal Revenue Sharing	94.1	94.1	0.0	13.8%	98.9	98.9	0.0	5.0%	103.8	103.8	0.0	5.0%
Tobacco Settlement Revenue												
Reversions	41.3	41.3	0.0	-2.2%	45.0	45.0	0.0	8.9%	46.3	46.3	0.0	3.0%
Total Recurring Revenue	6,524.2	6,575.1	50.9	2.7%	6,737.8	6,815.9	78.1	3.7%	6,959.2	7,058.2	99.0	3.6%
Adjustments & Non-Recurring	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0	
Grand Total Revenue	6,524.2	6,575.1	50.9	2.7%	6,737.8	6,815.9	78.1	3.7%	6,959.2	7,058.2	99.0	3.6%
Oil and gas share of General Fund	19.5%	20.1%			18.2%	19.1%			16.9%	18.1%		

Appendix Table 3 – General Fund Financial Summary
August 2008 Consensus Forecast and Special Session Bills Passing Both Houses
(Dollars in Millions)

	Audited FY07	Estimated FY08	Estimated FY09	Estimated FY10
Appropriation Account				
REVENUE				
Recurring Revenue, August 2008 Consensus Forecast	5,774.5	5,910.6	6,241.2	6,400.1
Nonrecurring Revenue, August Consensus Forecast	0.0	47.1	-	-
Recurring Revenue, 2008 Special Session			(7.6)	(7.8)
Nonrecurring Revenue, 2008 Special Session			(55.8)	-
TOTAL REVENUE	5,774.5	5,957.7	6,177.8	6,392.3
APPROPRIATIONS				
Recurring Appropriations	5,113.1	5,675.1	6,026.8	6,392.3
Nonrecurring Appropriations	814.3	313.0	13.9	-
Nonrecurring Appropriations, 2008 Special Session			45.8	-
TOTAL APPROPRIATIONS	5,927.4	5,988.1	6,086.5	6,392.3
Transfer to/from General Fund Operating Reserve	(152.9)	(30.4)	91.3	(0.0)
General Fund Operating Reserve				
Beginning Balance	359.5	156.1	124.2	214.1
Reversions	0.4			
Appropriations	(10.8)	(1.5)	(1.5)	(1.5)
Transfers In Appropriation Account	-	-	91.3	-
Transfers Out Appropriation Account	(152.9)	(30.4)	-	(0.0)
Other	(40.0)	-	-	-
Ending Balance	156.1	124.2	214.1	212.5
Ending Balances as a % of Prior Year Recurring Appropriations	3.3%	2.4%	3.8%	3.5%
State Support Reserve:				
Beginning Balance	-	1.0	1.0	1.0
Transfers In	1.0	-	-	-
Ending Balance	1.0	1.0	1.0	1.0
Appropriation Contingency Fund				
Beginning Balance, Excluding Education Reform	19.9	38.7	26.2	(6.8)
Expenditures	(22.8)	(18.4)	(33.0)	(20.0)
Revenue, Transfers and Reversions	41.6	5.9	-	-
Ending Balance, Excluding Education Reform	38.7	26.2	(6.8)	(26.8)
Education Reform, Beginning Balance	79.8	74.9	67.4	67.4
Transfers In	-	-	-	-
Transfers Out	(4.9)	(7.5)	-	(5.0)
Ending Balance, Education Reform	74.9	67.4	67.4	67.4
Ending Balance	113.6	93.6	60.6	40.6
Tax Stabilization Reserve				
Beginning Balance	254.4	254.4	254.4	254.4
Transfers In	-	-	-	-
Ending Balance	254.4	254.4	254.4	254.4
Ending Balances as a % of Prior Year Recurring Appropriations	5.4%	5.0%	4.5%	4.2%
Tobacco Settlement Permanent Fund				
Beginning Balance	84.6	116.7	149.1	182.5
Transfers In, December 2006 Consensus Estimate	36.2	44.9	41.5	63.9
Transfers Out	(18.1)	(22.4)	(20.7)	(31.9)
Gains or (Losses)	14.0	9.9	12.7	15.5
Ending Balance	116.7	149.1	182.5	230.0
Total Balances	641.8	622.2	712.5	738.4
Reserves as a % of Current-year Recurring Appropriations	12.6%	11.0%	11.8%	11.6%
New Money – recurring				373.3
Nonrecurring subject to appropriation				99.2
Restricted sub-accounts		75.7%	70.8%	74.7%

Note: the following data have not been approved by the consensus group, but represents DFA's efforts to improve the tracking of revenues at the end of the fiscal year.

Appendix Table 4 – DFA's 8 22 08 Flash Estimate for FY08 Revenues				
(millions \$)	Dec 2007 Forecast	DFA FY08 Estimated Total	DFA- Forecast Difference	% Difference to Forecast
Gross Receipts Tax	1,910.0	1,846.0	-64.0	-3.4%
Compensating Tax	64.0	64.1	0.1	0.1%
Insurance Premiums Tax	105.7	109.8	4.1	3.9%
Motor Vehicle Excise Tax	136.0	129.8	-6.2	-4.6%
Other Selective Excise Taxes	166.1	166.6	0.5	0.3%
Personal Income Tax	1,147.8	1,175.9	28.1	2.4%
Corporate Income Tax	440.0	403.5	-36.5	-8.3%
School Tax	427.9	558.8	130.8	30.6%
Other Mineral Taxes	68.3	73.1	4.9	7.1%
License Fees	49.7	60.4	10.7	21.5%
LGPF	390.7	390.7	0.1	0.0%
STO earnings	79.0	46.8	-32.2	-40.8%
STPF	177.2	177.2	0.0	0.0%
FML	553.7	564.0	10.3	1.9%
SLO	47.3	40.8	-6.5	-13.7%
Tribal Revenue Sharing	64.5	68.4	3.9	6.1%
Miscellaneous Revenues	34.3	37.7	3.4	9.9%
Reversions	39.1	49.2	10.1	25.8%
Recurring Total	5,901.1	5,962.8	61.6	1.0%
Nonrecurring	47.0	47.1	0.1	0.3%
Total	5,948.1	6,009.9	61.8	1.0%

Sources:

TRD ASD FBD weekly distributions report preliminary

DFA FCD preliminaries and unaudited actuals

FML - STO preliminary

Insurance - PRC preliminary (non-acctng)

Fire Fund - calculation based on PRC ASD appropriations and distributions trends below FY06 cap

Core Shares from 07 Master updated by FY06 where approp., Sept 07

Appendix Table 5 – Baker-Hughes Rig Counts – Composite Change

Category	22-Aug-08		15-Aug-08		24-Aug-07	2007	2008	YTD Change	YTD % Change	Q2 2008	Q3 2008	QTD Change	QTD % Change
	This Week	Wk-Wk Change	Last Week	Yr-Yr Change	Last Year	YTD	YTD			QTD	QTD		
Total	83	2	81	-6	89	81	76	-5	-6.2%	78	83	5	6.4%
Permian Gas	17	1	16	-9	26	33	27	-6	-18.2%	78	83	5	6.4%
Permian Oil	44	1	43	11	33	24	36	12	50.0%	0	0	0	
San Juan Gas	19	0	19	-5	24	22	11	-11	-50.0%	0	0	0	
San Juan Oil	0	0	0	-3	3	1	1	0	0.0%	0	0	0	
Raton/Pedernal Gas	3	0	3	0	3	1	1	0	0.0%				
Gas	39	1	38	-14	53	56	39	-17	-30.4%	40	40	0	0.0%
Oil	44	1	43	8	36	25	37	12	48.0%	38	43	5	13.2%
Thermal	0	0	0	0	0	0	0	0		0	0	0	
Vertical	61	-2	63	-6	67	69	63	-6	-8.7%	65	66	1	1.5%
Directional	11	2	9	-5	16	11	9	-2	-18.2%	10	8	-2	-20.0%
Horizontal	11	2	9	5	6	1	4	3	300.0%	2	9	7	350.0%
<5K	11	1	10	-4	15	9	8	-1	-11.1%	9	10	1	11.1%
5-10K	50	0	50	1	49	47	39	-8	-17.0%	41	48	7	17.1%
10-15K	22	1	21	-3	25	25	28	3	12.0%	27	25	-2	-7.4%
15-20K	0	0	0	0	0	0	1	1		1	1	0	0.0%
>20K	0	0	0	0	0	0	0	0		0	0	0	
Exploration	0	0	0	0	0	0	0	0		0	0	0	
Development	83	2	81	-6	89	81	76	-5	-6.2%	78	83	5	6.4%