General Fund Consensus Revenue Estimates

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Introduction

Today's revenue update reflects a state economy that is weathering a national and world-wide recession, although not without considerable effort. This forecast reflects reductions in revenues due to lower world oil prices and national natural gas prices, as well as the now well-known national financial crisis, which has lead to a national, and likely worldwide, recession. The good news is that New Mexico is likely to be better off over the next two years than most of the nation.[1] Most states have been negatively impacted by the national circumstances – the collapse of the "housing price bubble," mortgage foreclosures, a credit crunch, price volatility for many items, and a still weak (but strengthening) dollar – to a greater extent than New Mexico. Other factors, such as the 40% decline in the value of shares traded on the New York Stock Exchange and the $700 billion "bailout" of the nation's financial sector, continue to have a nation-wide rippling impact.

The National Bureau of Economic Research (NBER) announced last week that the U.S. national economy has been in recession since December 2007. Daily economic news, such as Friday's announcement that the nation shed 533,000 jobs in November, indicate that the "Worst is Yet to Come for the Economy"[2]. The consensus among nationally prominent economists is that the national gross domestic product (GDP) will have ***at least*** four consecutive quarters of negative growth from 2008:Q3 through 2009:Q2. The federal fiscal stimulus rebates delayed the decline, but did not dramatically reverse the path of the national economy. A proposed new $550 to $700 billion fiscal stimulus package might reverse the path of the national economy and help to balance the state budget for FY10.

[1] Federal Funds Information for States, VOLUME 26 ISSUE 18, September 2008, pp 2-9 . The five states with higher Index of State Economic Momentum are North Dakota, Texas, Wyoming, South Dakota and Oklahoma.
[2] Global Insight Power Point presentation prepared by Patrick Newport and delivered to the FOR-UNM subscriber's meeting on Friday, December 5.

The key factor in this update to the revenue forecast is that natural gas and crude oil prices for FY09 and FY10 are expected to decline further from the levels reported to this Committee in the October 2008 consensus revenue forecasts. These prices and volumes are reported in Table 1, which repeats a portion of Appendix Table 1.

Table 1 – Extract from Appendix Table 1 – Economic Indicators

	FY09				FY10				FY11	
	Dec 07 Est.	Aug 08 Est.	Oct 08 Est.	Dec 08 Est.	Dec 07 Est.	Aug 08 Est.	Oct 08 Est.	Dec 08 Est.	Oct 08 Est.	Dec 08 Est.
CRUDE OIL AND NATURAL GAS										
NM Oil Price ($/barrel)	$75.00	$122.00	$94.00	$69.00	$75.00	$116.00	$90.00	$59.00	$90.00	$68.00
NM Oil Sales (million barrels)	57.0	60.0	60.0	60.0	55.9	58.8	59.4	59.4	58.8	58.8
NM Gas Price ($ per MCF)	$6.60	$9.60	$6.75	$6.05	$6.57	$9.20	$7.10	$6.35	$7.50	$7.10
NM Gas Sales (BCF)	1,434	1,474	1,415	1,415	1,405	1,455	1,380	1,380	1,345	1,345

The volatility in energy prices over this relatively brief time period has been extreme. Natural gas prices have ranged from $12.31 per MCF on June 20 to $1.88 per MCF in the San Juan basin on October 10. Similarly, although somewhat less extreme, crude oil prices paid to New Mexico producers have ranged from $143.30 per barrel on July 3 to $37.35 per barrel on December 5.

Table 2: December 2008 Forecast Changes in Recurring Revenues (Dollars in millions)

Recurring Revenues (Dollars in millions)	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
October 2008 Forecast	5,994.1	5,889.4	6,020.1	6,238.8	6,452.7	6,641.3
December 2008 Forecast	5,994.6	5,703.3	5,733.3	5,954.0	6,176.7	6,337.6
Change from October forecast	0.5	-186.1	-286.8	-284.8	-276.0	-303.7
Approximate "New Money"			-293.5			
Approximate current year shortfall (before actions by the Governor and Legislature)		-384.4				

Note: "New Money" is the amount by which current year recurring revenues are greater than previous year's recurring appropriations. In this presentation, the negative "New Money" implies that either FY10 appropriations will be less than FY09 appropriations, there will be a tax increase or the Legislature and the Governor will agree to allow General Fund balances to finish the FY10 fiscal year at less than 10% of FY10 recurring appropriations.

The updated December 2008 forecast for recurring revenues and changes relative to the October 2008 forecast are shown in Table 2. Since the October forecast, the predicted recurring revenue for FY09 has decreased by $186.1 million, and the FY10 forecast has been lowered by $286.8 million. The FY11, FY12 and FY13 forecasts have also been decreased from the October forecast. This revenue estimate is predicting a shortfall for the current fiscal year (FY09) of $384.4 million, which is a $185 million increase in the shortfall (before actions by the Governor or Legislature) since October when the shortfall was reported as $199.6 million. Estimated revenues for FY08 are expected to exceed the December 2007 forecast by approximately $92.5 million.

In response to the October forecast, the Governor took decisive actions to address the projected shortfall in FY09 and FY10. On October 17, he directed all executive agencies under his control to take immediate action to cut costs and to develop plans to save 5% in FY09 expenditures, savings that could carry on to FY10. This part of the plan will reduce spending and is anticipated to save between $60 and $100 million. The Governor also called upon legislative and judicial leaders to follow his example and help reduce this year's operating costs. In addition, the Governor directed the Department of Finance and Administration to work with executive agencies to identify earmarked funds, earmarked appropriations and stalled capital outlay projects that could be deauthorized by the Legislature and help shore up the General Fund. The Taxation and Revenue Department has identified almost $100 million in nonrecurring revenues that could be used to bolster the General Fund for FY09 with appropriate legislation in the 2009 session. Governor Richardson believes New Mexico can address the shortfall while maintaining cash reserves and without severely affecting key services to New Mexicans. These steps, taken together, could save the state as much as $440 million in FY09 expenditures. These responses in FY09 will likely carry over to the development of the FY10 budget. Many of these savings will require action by the Legislature in the 2009 regular session, and the Governor and the Lieutenant Governor are committed to working with the Legislature to maintain a balanced budget.

Although declining oil and natural gas prices have created a state revenue problem, they are a positive force in helping the economy recover by lowering operating costs for business and transportation costs for consumers. Lower fuel and energy prices will also relieve pressure on the General Fund budgets proposed for FY10 and will help the State Road Fund complete GRIP I and II projects.

Table 3 – Extract of Appendix Table 3 – General Fund Financial Summary

	Audited FY07	Estimated FY08	Estimated FY09	Estimated FY10
APPROPRIATION ACCOUNT				
Transfer to/from General Fund Operating Reserve	**(153.1)**	**71.9**	**(454.2)**	**-**
GENERAL FUND OPERATING RESERVE				
Ending Balance	**156.0**	**226.4**	**(229.4)**	**(230.9)**
APPROPRIATION CONTINGENCY FUND				
Ending Balance, Excluding Education Reform	**47.7**	**26.7**	**(6.3)**	**(26.3)**
Ending Balance, Education Reform	**74.9**	**67.4**	**67.4**	**67.4**
TAX STABILIZATION RESERVE				
Ending Balance	**254.4**	**254.4**	**254.4**	**254.4**
TOBACCO SETTLEMENT PERMANENT FUND				
Ending Balance	**116.7**	**137.9**	**131.2**	160.2
TOTAL BALANCES	**650.6**	**713.7**	**218.2**	**225.8**
Reserves as a % of Current-year Recurring Appropriations	**12.7%**	**12.6%**	**3.6%**	**3.9%**
New Money––recurring				**(293.5)**
Shortfall for current year (before corrective actions)			**(384.4)**	
Nonrecurring subject to appropriation				**(347.5)**
Restricted sub-accounts		**64.4%**	**207.5%**	**213.4%**

Table 3 contains an extract of Appendix Table 3, the General Fund Financial Summary, which details the estimated balances in each of the various reserve funds of the General Fund. DFA has previously reported to this Committee that the structure of the reserves is an issue that needs to be addressed during the regular Legislative session so that the General Fund Operating Reserve balances are sufficient to pay the obligations in the appropriation account. Additionally, the balances in the Appropriation Contingency Fund need to be adjusted similarly to cover any unforeseen obligations, which mainly consist of costs associated with emergency declarations.

Bond capacities have also been revised downwards due to the decreases in oil and gas prices and will be discussed in the subsequent presentation to this Committee.

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 conduct a mid-session review just before the midpoint of the 2009 session.

In addition to the uncertainties in the economy and revenues reported here, there are also concerns whether an economic stimulus package promised by President-Elect Obama will include specific assistance for state governments. This assistance could take the form of infrastructure construction grants, additional Medicaid assistance, an extension of unemployment benefits or additional allocations for the federal food stamp program.

Review of the National Economy

The U.S. economy shows continued weakness. There have been job losses in each of the past 11 months, negative GDP growth is anticipated for at least four quarters (2008:Q3, 2008:Q4, 2009:Q1 and 2009:Q2) and consumer prices, once rising rapidly, are now falling. The NBER has now confirmed what virtually all economists have believed for some time – that the U.S. is currently in a recession. The debate now centers on "how long and how deep a recession." The revenue consensus group believes that the Global Insight (GI) November forecast is largely correct. The substance of this GI forecast is discussed in the sidebar below and Table 4 – "A Quick Look at the Numbers" – below.

In general, this GI forecast predicts four quarters of negative growth beginning 2008:Q3, up to two years of job losses totaling over 2,000,000 jobs from peak to trough, federal funds rate bottoming out below 1% and mild deflation – primarily due to lower energy and food prices.

There are some hopeful signs on the horizon. For example, on November 25, 2008, the Conference Board reported an improved consumer confidence index of 44.9, up from a revised 38.8 in October, higher than expected, on falling energy prices included in the general market slump.

GLOBAL INSIGHT

U.S. Economy

by Nigel Gault

This information was last updated on Wed 03 Dec 2008, 4:09 PM EST (21:09 GMT)

Recession Is Official: Now How Long and How Deep?

This week's announcement from the National Bureau of Economic Research that the U.S. economy has been in recession since December 2007 came as no surprise. In terms of length and depth, this is likely to prove comparable to or worse than any other postwar recession.

Longest Postwar Recession in Prospect…and One of the Deepest. We are 12 months into this recession and the economy's rate of decline has worsened dramatically. We expect real GDP to drop 5.0% in the fourth quarter. We see negative growth through mid-2009, and only anemic positive growth in the second half, so that would put the recession's length at somewhere between 18 and 24 months. The longest previous postwar recessions in 1973–75 and 1981–82 both lasted 16 months. In terms of depth, we anticipate a 2.5% peak-to-trough decline in real GDP.That would be similar to the 1973–75 (down 3.1%) and 1981–82 (down 2.9%) recessions. The worst was the short-but-sharp 1957–58 recession (down 3.7%).

Global Economy in Free-Fall. The fallout from the financial crisis is becoming ever more severe, and on a global scale. U.S. consumers are retrenching, with real consumption dropping 3.7% in the third quarter; we expect an even steeper 4.5% drop in the fourth quarter. Housing starts and prices continue to decline, with no end in sight. The key ISM-manufacturing index is at a level last seen in 1981; business equipment orders are plunging, with both domestic and export demand evaporating. Just two months ago, we had anticipated export growth of 5.2% in 2009; we now expect exports to drop 3.6%. And the decline in the labor market is accelerating; we expect job losses of 350,000–400,000 per month in November and December. As a result, we have had to cut our GDP forecasts again—our growth forecast for 2009 is now minus 1.8%, rather than minus 1.0%. We see the unemployment rate at 8.6% by the end of 2009.

Commodity Prices Are Diving, Inflation Is Vanishing. Oil prices continue to fall further below $50/barrel; we assume they hit a trough of **$39/barrel** in the second quarter of 2009. The resulting drop in gasoline prices from their third-quarter peak is like a **$230-billion tax cut for consumers**, which should eventually help to stabilize consumer spending. But plunging prices bring new dangers; deflation, not inflation, is now the primary price risk. By the third quarter of 2009, we expect headline CPI inflation to be negative, at minus 3.2% y/y, largely on plunging energy costs. Core inflation will prove more stubborn than the headline number, but will probably fall below the bottom of the Federal Reserve's 1–2% comfort zone by the second half of 2009.

President Obama to the Rescue? The standard Keynesian playbook says that when monetary policy is facing a liquidity trap (i.e., the financial sector mops up liquidity without increasing lending) and private-sector spending is contracting, then it is up to fiscal policy to step in. The Obama administration-in-waiting is putting its economic team in place and gearing up for a large fiscal-stimulus package. We have assumed a package totaling $550 billion over three years, including a mixture of **infrastructure spending, support for state and local governments, increased transfer payments (e.g., extended unemployment insurance), and a permanent "middle-class" tax cut.** Infrastructure spending is especially helpful because it creates jobs directly, but it will take time to ramp up and its strongest boost to growth will not come until 2010. The stimulus package, financial bailout costs, and the recession will take the federal budget deficit above $1.3 trillion in 2009. For now, the need to support the economy trumps deficit fears, but once the recession is over, President Obama will face tough choices about his spending priorities. And eventually other taxes will have to rise to cover the cost of the middle-class tax cut.

Fed Expected to Cut Target Rate to Zero. The Federal Reserve is running out of conventional ammunition, and the effect of rate cuts is negligible, given banks' reluctance to lend—but we still expect it to reduce the federal funds rate target to zero by January, and to hold there for most of 2009…

Table 4 – A Quick Look at the Numbers									
	Quarterly				**Annual**				
	08:3	**08:4**	**09:1**	**09:2**	**2007**	**2008**	**2009**	**2010**	**2011**
Real GDP (Percent change)	-0.5	-5.0	-3.8	-0.7	2.0	1.2	-1.8	2.1	3.2
Federal Funds Rate (Percent)	1.94	0.71	0.16	0.00	5.02	1.98	0.09	1.22	3.73
Ten-Year Treasury Yield (Percent)	3.86	3.42	2.95	3.09	4.63	3.71	3.20	3.89	5.13
Oil Prices, WTI (Dollars/barrel)	118	61	45	39	72	100	43	57	79
Consumer Price Index (% change y/y)	5.3	1.6	-0.5	-2.2	2.9	3.8	-1.5	2.4	3.1
Housing Starts (Millions)	0.88	0.73	0.64	0.61	1.34	0.92	0.66	0.97	1.35
Consumer Sentiment (Univ. of Michigan)	65	54	58	60	86	63	60	66	70
Unemployment Rate (Percent)	6.0	6.8	7.5	8.1	4.6	5.8	8.2	8.6	8.1

New Mexico Economic Review and Outlook

Economic growth for New Mexico is expected to be slow for the next year and then pick up slightly. Employment growth is expected to be 1.0% in FY08, falling to -0.1% for FY09, recovering to 0.6% for FY10 and near 1.5% annually thereafter, with the unemployment rate expected to remain near 4.5% through the next five years after peaking at 4.9% in FY10. Personal income growth is expected to reach 6.4% in FY08 and to remain between 4.5% and 5.5% for the next five years.

New Mexico is likely to have one or two quarters of overall job losses – the primary criterion of regional recession (See Figure B below. The potential job shrinkage period is highlighted). There is little doubt that job growth has slowed and there are other issues confronting the New Mexico economy. Recession has only rarely visited New Mexico. Figure A and Table 5 show the history of New Mexico recessions going back to 1939, with the dates of the peak and trough in total employment in the state and the depth of job losses. Note that the job losses in the state since May already exceed the level of losses in the previous (very mild) recession in 1990.

Table 5 – New Mexico Recession Dates

Peak	Trough	Duration	% SA Decline Peak to Trough
Jul-43	Mar-44	8	-3.3%
Jul-53	Feb-55	19	-5.0%
Jul-60	Mar-61	8	-4.0%
Jul-66	Oct-67	15	-4.2%
Jan-82	Mar-83	14	-1.6%
Aug-86	Feb-87	6	-0.3%
May-08	?	?	-0.5%

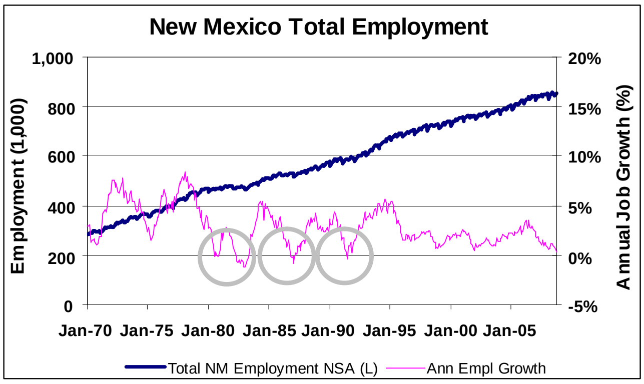


Figure A – New Mexico Employment History

- Job growth has slowed in New Mexico from over 3% in mid-2006 to 0.1% as of October 2008. Wyoming, Texas, Oklahoma and Colorado grew faster than New Mexico in the region for the period October 2007 to October 2008, while New Mexico grew faster than Utah, Nevada, California and Arizona. The U.S. average growth for the October 2007-October 2008 period was -0.9%. New Mexico ranked 18th among all states in job growth for this period.

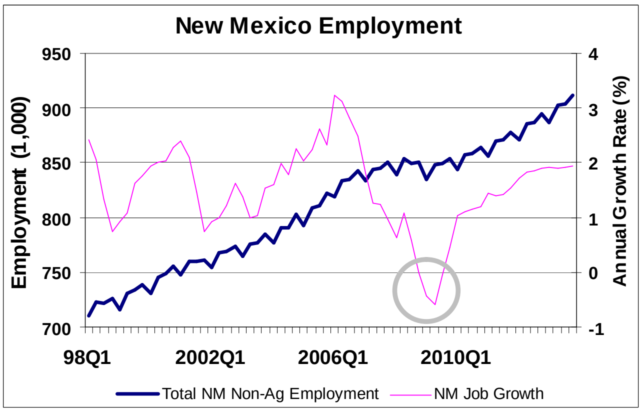


Figure B – New Mexico Employment

Table 6 – Nonagricultural Wage and Salary Employment					
	Prelim-inary	Revised	Revised	Change	
NEW MEXICO	Oct-08	Sep-08	Oct-08	Monthly	Yearly
TOTAL NONAGRICULTURAL EMPLOYMENT	**854,300**	**853,300**	**849,900**	**-2,400**	**1,000**
GOODS-PRODUCING	114,900	114,900	116,800	-1,000	-2,900
SERVICE-PROVIDING	739,400	738,400	733,100	-1,400	3,900
NATURAL RESOURCES AND MINING	**20,500**	**20,500**	**19,600**	**100**	**1,000**
CONSTRUCTION	**59,300**	**59,200**	**59,900**	**-700**	**-1,400**
MANUFACTURING	**35,200**	**35,200**	**37,300**	**-400**	**-2,500**
WHOLESALE TRADE	**24,300**	**24,300**	**24,000**	**0**	**300**
RETAIL TRADE	**96,600**	**96,600**	**96,000**	**200**	**800**
TRANSPORTATION, WAREHOUSING, AND UTILITIES	**25,500**	**25,400**	**25,300**	**-100**	**0**
INFORMATION	**16,300**	**16,800**	**16,200**	**-500**	**100**
FINANCIAL ACTIVITIES	**34,500**	**34,500**	**35,200**	**0**	**-700**
PROFESSIONAL AND BUSINESS SERVICES	**107,400**	**108,400**	**109,000**	**-1,000**	**-1,600**
EDUCATIONAL AND HEALTH SERVICES	**117,300**	**116,500**	**112,900**	**800**	**4,400**
Educational Services	14,300	14,000	14,100	300	200
Health Care and Social Assistance	103,000	102,500	98,800	500	4,200
LEISURE AND HOSPITALITY	**85,900**	**88,000**	**87,300**	**-2,100**	**-1,400**
Arts, Entertainment, and Recreation	7,900	8,200	7,900	-300	0
Accommodation and Food Services	78,000	79,800	79,400	-1,800	-1,400
OTHER SERVICES	**29,100**	**29,300**	**29,000**	**-200**	**100**
GOVERNMENT	**200,100**	**198,600**	**198,200**	**1,500**	**1,900**
Federal Government	30,400	30,800	30,200	-400	200
State Government	61,800	60,800	61,700	1,000	100
State Government Education	*28,800*	*27,400*	*28,900*	*1,400*	*-100*
Local Government	107,900	107,000	106,300	900	1,600
Local Government Education	*58,800*	*57,600*	*57,700*	*1,200*	*1,100*

- Table 6 shows the most recent state sectoral job numbers reported by the New Mexico Department of Workforce Solutions, for October, 2008. The New Mexico economy added 1,000 net new non-agricultural jobs over the year ending in October, representing year-over-year job growth of 0.1%, well above the national rate of - 0.9%. The U.S. job market experienced a month-over-month loss of 533,000 jobs in November and 240,000 jobs in October,
- Unemployment in New Mexico averaged 3.5% in 2007, and has increased this year to 4.4% in October, up from 4.0% in September and 3.3% in October 2007. The New Mexico unemployment rate is well below the national unemployment rate of 6.5%.

- Total Personal Income – New Mexico's total personal income reached $64.2 billion in the second quarter of 2008. Using this measure, economic activity expanded at an annual rate of 5.8% from 2007:Q2 to 2008:Q2. National growth in personal income over the same period was 5.3%.
- Wages and Salaries – year-over-year, New Mexico had 3.0% growth in average hourly earnings in construction, 2.1% growth in manufacturing, a 1.0% decline in retail and 0.2% growth in wholesale. New Mexico's total wage and salary disbursements reached $33.5 billion in the second quarter of 2008, a 5.6% growth year-over-year. U.S. wages increased 4.1% year-over-year in the second quarter of 2008. New Mexico's average non-agricultural wage reached $39,980 per job in the second quarter of 2008. New Mexico's wages averaged 84% of the nation's. We can summarize the details by sector as follows:
- Construction – housing contributed to a year-over-year decline in construction employment of 1,400 jobs for October 2008. Total housing unit authorizations in New Mexico are down 40% and construction contract award values are off 24% in the second quarter of 2008, with a 42% drop in single family and 24% drop in multi-family residential contracts, although non-residential contracts showed a 6% increase. 2008:Q3 data on construction activity is further depressed from 2008:Q2 results. See Figure C.

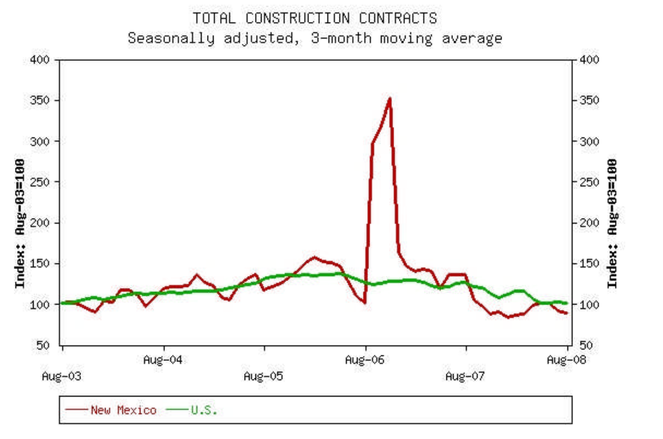
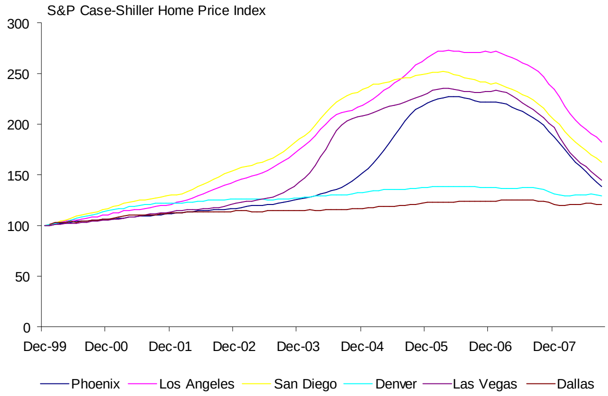


Figure C –New Mexico construction activity (Seasonally adjusted)
Source: F.W. Dodge, Inc, FRB KC

- Trade – retail trade performed well, adding 800 jobs for the year ending in October, despite a weak economy and several store closings in cities around the state.
- Tourism – New Mexico's travel and tourism sector has been declining, with the large accommodation and food service sector losing 1,400 jobs over the last year.
- Government – New Mexico's government sector increased 1,900 jobs since October 2007, though mostly at the local level (1,600 jobs) mostly in education.
- Interest Rates – the 30-year fixed-rate mortgage rate is currently 5.53% according to Freddie Mac. The federal funds rate may be cut to 0.0% from its current 0.5% rate.

- Home Prices – according to the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Appreciation Ranking, New Mexico's house prices were down 0.2% year-over-year for the third quarter of 2008. This ranks New Mexico 21st in the nation for annual housing appreciation. The corresponding figure for the U.S. as a whole was a decline of 6.0% for that period. The Standard and Poor's Case-Shiller Index of Home Prices – shown in the graph for Denver and Dallas, clearly shows that not all markets behaved the same during the aggressive price appreciation period of 2005 - 2007. The "housing bubble" was pronounced for most Southwestern cities, with the exception of Denver and Dallas. We believe that Albuquerque is similar to the Denver and Dallas markets. If this similarity holds, Albuquerque house prices have probably bottomed out and will resume a slow, but steady increase. The OFHEO Housing Price Index declined 0.54% for Albuquerque, increased 0.25% for Las Cruces, declined 1.71% for Santa Fe and declined 0.07% for Farmington, year-over-year, as of the third quarter of 2008.



- New Mexico home foreclosure trends (latest RealtyTrac): In October 2008, RealtyTrac New Mexico reported a New Mexico foreclosure rate of less than one-seventh the national rate. This ratio is unchanged from the prior month. RealtyTrac ranks New Mexico 42nd in foreclosures for October 2008, with a 45.0% year-over-year **decline** and 9.1% month-over-month increase in New Mexico foreclosures. New Mexico compares favorably to national figures, which show the US at a 24.6% year-over-year **increase** and a 5.1% month-over-month increase in US foreclosures.

FY08 Revenue Update

Total General Fund revenues for FY08 are expected to be about $92.5 million over the December 2007 forecast with weakness in the broad-based taxes and investment income 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 and accrued receipts have been posted through June. There are, however, a few revenue sources – particularly GRT, PIT CIT and Emergency School tax – that will not be known with certainty until the final audit. Table 7 summarizes the differences between preliminary results and the December 2007 (budget) forecast. Considering the estimating error over the last four years, this performance is noteworthy.

Table 7 – Change in FY08 revenues from December 2007 Estimate (millions)			
Revenue Source	**Dec-07**	**Dec-08**	**Change**
Gross receipts and compensating taxes	$1,974.0	$1,909.4	($64.7)
Selective excise (sales) taxes	$407.8	$396.3	($11.5)
Personal and corporate income taxes	$1,587.8	$1,602.0	$14.2
Mineral production taxes, federal mineral leasing, state land office income	$1,097.2	$1,236.9	$139.8
Investment income	$646.8	$623.6	($23.3)
All other sources	$235.7	$273.5	$37.8
Total	$5,949.3	$6,041.7	$92.5

FY09 through FY13 Revenue Forecasts

Before turning to a discussion of the General Fund forecast, it is useful to place New Mexico's fiscal situation in a broader national and historical perspective. The Center on Budget and Policy Priorities (CBPP) reports that at least 41 states plus the District of Columbia, faced or are facing shortfalls in their budgets for FY09 and/or FY10 (fiscal years begin July 1 in most states). The FY09 general fund gap for states is expected to be nearly $48 billion, over 12% of their general funds. These gaps are expected to widen in some states, particularly in FY10. In response to these budget gaps, many states have cut programs for vulnerable families. According to the CBPP, at least 17 states have cut or are considering cuts to eligibility to health insurance for low-income children and families. At least 15 states are cutting medical and other services for the elderly and disabled. At least 16 states have cut, or are considering cuts, to K-12 and early education. These cuts are likely to become more wide-spread and deepen if state revenues continue to weaken.

New Mexico's fiscal situation is significantly better than most state's, for several reasons. The General Fund gap for FY09 is well below the average for other states, and we entered FY09 with high levels of reserves, 12.6% of appropriations. New Mexico has also made dramatic strides under Governor Richardson's leadership to improve its economic climate and position itself for long-run, sustained economic growth. The results of these initiatives are reflected in the relative strength of the New Mexico economy over the forecast period, and the greater resilience in General Fund revenues in the face of a slowing economy. The State should be able to weather the current economic storm without severely affecting key services to New Mexicans or depleting its General Fund reserves.

The general revenue outlook has worsened since the October forecast. The biggest declines are for the oil and gas revenues, but the broad based taxes are also exhibiting growth below the long-term trend. The October forecast was based on expected near-term strong growth in the oil and gas-related revenues, followed by moderating, but still high, oil and gas prices and for moderate growth over the

FY09 to FY13 period in gross receipts, personal income, corporate income, motor vehicle excise taxes and investment income. For this revenue forecast, oil and gas prices are expected to be significantly lower than were expected in the October forecast, and the New Mexico economy is expected to grow more slowly.

Appendix Table 1 provides detail on the economic assumptions underlying this forecast, and Appendix Table 2 provides detail on the forecast for each General Fund revenue source.

Gross Receipts and Compensating Taxes

Gross receipts and compensating taxes are the largest source of General Fund revenues, representing about 35% of the total recurring revenue. These taxes grew only 0.4% from FY07 to FY08, the lowest growth rate in over two decades. Figures D and E illustrate how the construction sector went from being one of the biggest drivers of growth in FY07 to one of the largest contributors to slow growth in FY08 and continued slow growth this year. The overall momentum of growth in taxable gross receipts actually improved in recent months, despite slow growth in the retail trade and construction sectors. Other sectors such as utilities, wholesale trade, health, mining and oil and gas extraction, and especially the services sectors have buoyed overall growth.

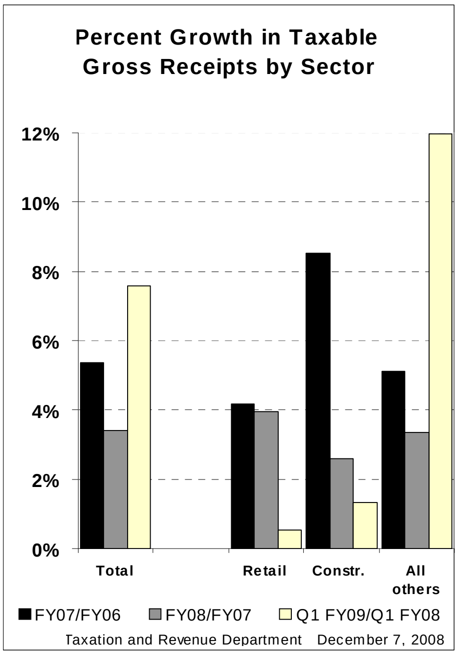


Figure D – Taxable Gross Receipts

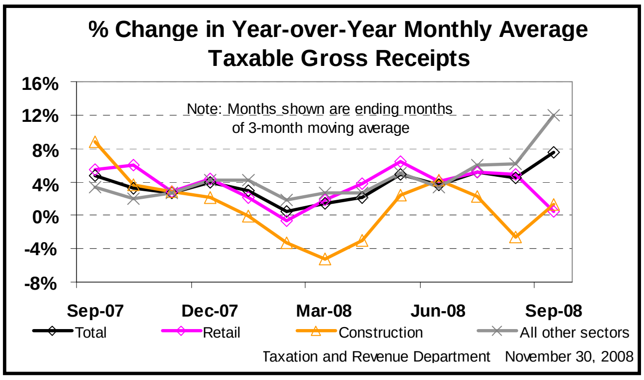
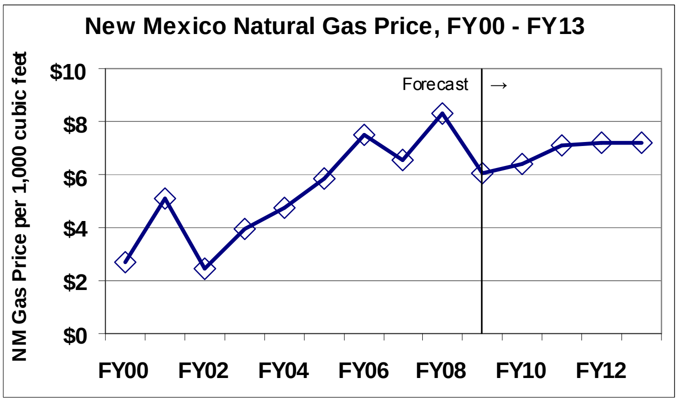


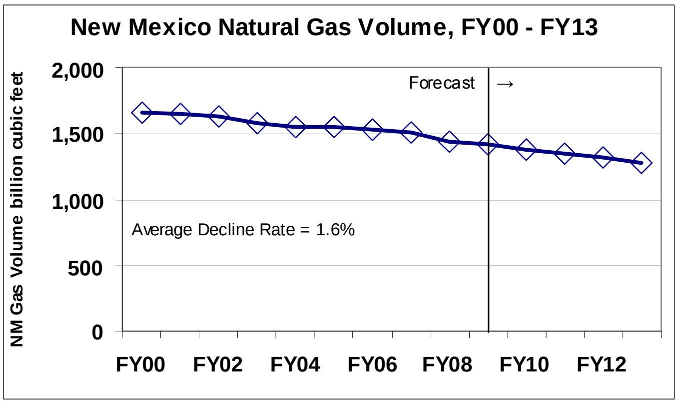
Figure E – Taxable Gross Receipts

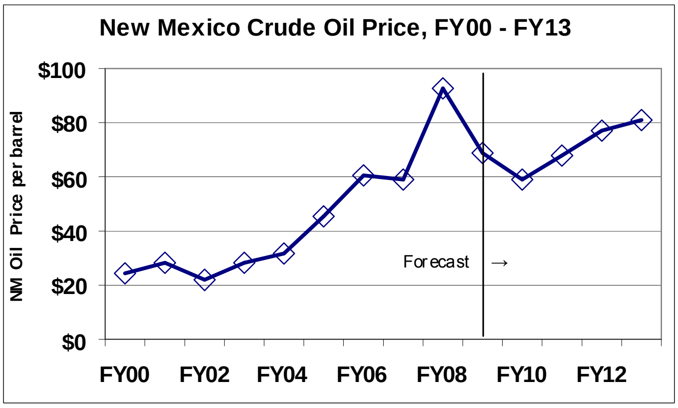
With growth in receipts expected to slow significantly later this year, the growth in gross receipts and compensating taxes for FY 2009 is expected to be only 2.9%, with even slower growth of 0.7% expected for FY10, and then higher growth of 3.1% for FY11, 3.9% for FY12 and 4.3% for FY13.

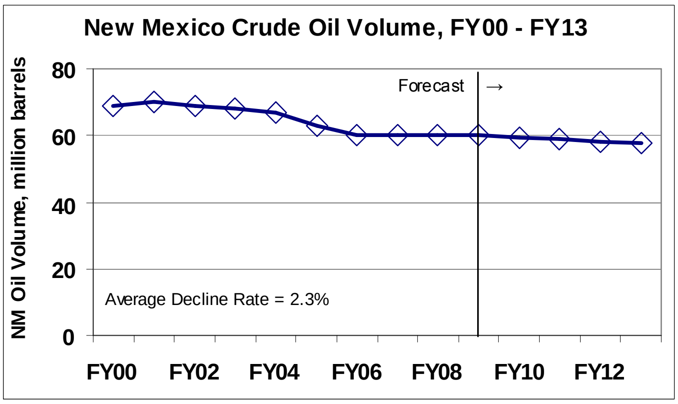
Oil and Natural Gas Revenues

Natural gas and oil volumes and prices over the past five fiscal years are reflected in the following four graphs, along with forecasts for the following five years.









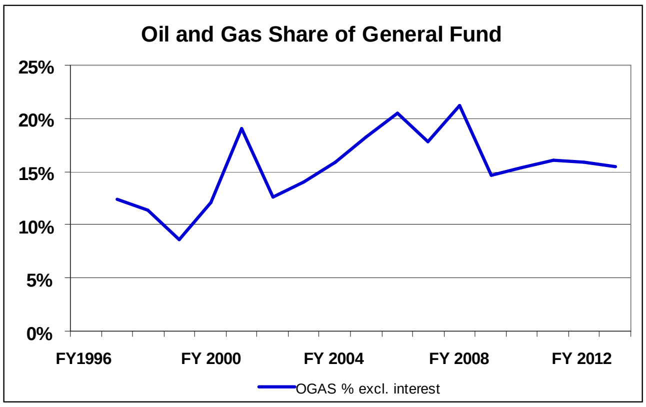
In FY 2008, of all natural gas produced in New Mexico 63.8 percent was produced in the San Juan Basin, 34.5 percent was produced in the Permian Basin, and 1.7 percent was produced in the Raton Basin. By land type 63.2 percent was produced on federal lands, 16.4 percent on State lands, 15.7 percent on private lands, and 4.7 percent on Indian lands. During the first two months of FY 2009 the price received by New Mexico's natural gas producers averaged $12.59 and $9.29 in July and August 2008, respectively. FY 2008 monthly natural gas volumes averaged 119.4 bcf. Volumes were 120.1 and 115.1 bcf for July and August 2008, respectively. This is the latest data available. Oil and gas producers tend to amend their returns for quite some time, so figures for July and August are preliminary. It is likely that volumes for these months will be revised upward.

Of all oil produced in New Mexico in FY08, 95.3 percent was produced in the Permian Basin and 4.7 percent was produced in the San Juan Basin. By land type 42.4 percent was produced on federal lands, 38.0 percent on State lands, 18.8 percent on private lands, and .81 percent on Indian lands. During the first two months of FY 2009, the price received by New Mexico's oil producers averaged $130.64 and $113.18 in July and August 2008, respectively. Fiscal Year 2008 monthly oil volumes averaged 5.0 million barrels. Volumes were 4.97 and 5.00 million barrels for July and August 2008, respectively. Again these figures are preliminary and subject to change.

FY08 collections for the Oil and Gas School Tax are expected to exceed the December 2007 forecast by at least $129 million. Federal mineral leasing (royalty) payments are expected to exceed the December forecast by $10.5 million (1.9%). This modest increase is the net of a number of technical factors, including the federal "sanding" provisions previously discussed with this committee.

It is now expected that late FY08 will be the peak of the increase in both oil and natural gas prices, followed by sharp drops. FY09 oil prices in New Mexico are expected to average $69 per barrel and natural gas prices to average $6.05 per MCF, but these averages mask the declines expected during the remainder of FY09. During the January-June 2009 period, the expected price of oil is only $51 per barrel, and the expected price of natural gas is only $4.90 per MCF. Natural gas production is expected to decline at about 2.5% per year, as there is less incentive at the lower prices for the industry to drill more production wells. Oil production is expected to decrease at 1% per year over the forecast period. Both of these volume assumptions are discussed further in the "risks to the forecast" section. FY10 oil prices are expected to moderate to $59 per barrel and natural gas is expected to increase to $6.35 per MCF. These are prices adjusted for the differential between Henry Hub and New Mexico.

With these revisions, the oil and gas share of the General Fund will peak at 21.2% in FY08, and thereafter decline to more typical levels, as shown in the chart to the right.



Note: oil and gas revenues include oil and gas emergency school tax, conservation tax, natural gas processors tax, federal mineral leasing payments and State land office transfers.

Selective Excises

Selective excise taxes, particularly the motor vehicle excise tax, are sensitive measures of consumer sentiment. The category total is expected to grow by 5.4% in FY09, in spite of a 9.9% decline in motor vehicle excise taxes.

Personal Income Tax

Personal income taxes will comprise over 21% of General Fund recurring revenues in FY09. As a result of the slowing economy, the final personal income tax rate cut (effective tax year 2008), and new or expanded credits passed during the 2007 and 2008 regular sessions and the 2008 special legislative session, personal income tax net receipts are expected to rise by only 1.8% in FY09. Increases in personal income tax receipts are projected to be smaller in FY10 and FY11 than in subsequent years, in part as a result of comparatively weak personal income growth.

Corporate Income Tax

Corporate profits for the non-oil and -gas corporations are expected to drop further according to the latest Global Insight forecasts, resulting in lower corporate income tax revenues in FY09. In addition, average oil and gas prices are now expected to be significantly lower for FY09 and FY10, contributing to a decline in profits and receipts from oil and gas corporations. The film production tax credit is expected to continue to be strong through FY13, demonstrating New Mexico's success in developing its film industry. The above factors are expected to reduce corporate income tax revenues by about $12 million in FY09 and by about $31 million in FY10 from the October 2008 estimate.

Table 8– Approved Film Production Tax Credits
FY03-FY09 (through 11/30/08)

	FY03	FY04	FY05	FY06	FY07	FY08	FY09*
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	29,540

* Through 11/30/08

General Fund Financial Summary

Appendix Table 3 shows the General Fund financial summary based on the revenue estimates presented here. This summary shows that there is a lot of work to be done by both the Executive and the Legislature to modify the FY09 budgets, build an adequate budget for FY10 and rebuild total General Fund reserves to the 10% level. There will be a $293.5 million decrease in FY10 recurring revenues compared with FY09 recurring expenditures (negative "new money") and a shortfall of $384.4 million by the end of FY09, before taking into account the measures announced by Governor Richardson in October to eliminate this gap. The Executive strongly recommends that in these uncertain economic times, we should maintain FY09 General Fund balances at 10.0% of current year appropriations. The Governor's announced savings plan will address this year's anticipated revenue shortfall, and will prepare the state agencies to reduce budgets in FY10. Legislative action and voluntary adoption of similar savings plans by the judiciary, legislature, elected public officials, public schools and the higher education establishment will close the rest of the gap.

The Department of Finance and Administration also wants to remind the Legislative Finance Committee and its members and staff that the ***structure*** of the General Fund reserves must be addressed. This point has been previously discussed with the Committee.

Risks to the Forecast

- The principal downside risk to this forecast is the chance that the national economy will continue to slide into a prolonged, deep recession. This would affect the forecasts of gross receipts tax, personal income tax, corporate income tax and motor vehicle excise tax. Indirectly, because the current recession affects worldwide demand for petroleum products, oil and natural gas prices and production levels will also be weaker. Global Insight places a 25% chance of a recession lasting 6 quarters.

- There is a significant upside risk, however. President-Elect Obama is preparing an economic stimulus and recovery plan that has an excellent chance of passage by the end of January 2009. Numerous sources have indicated that the plan will be in the range of $550 to $700 billion. The plan will include direct support of state and local government programs, as well as putting people to work rebuilding the nation's schools, libraries, roads and bridges, increasing broadband access, and ensuring health care uses the latest technology. New Mexico, and the General Fund, will benefit from this plan, both directly and through strengthening of the national economy.
- 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 softens, the state might have to use General Fund recurring revenue to make up for reduced federal grants and entitlements.
- 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 2.5% 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 a decline of approximately 1% to 2%, net of replacement drilling. The 1% long-term decline rate has been assumed for FY09 through FY13. Recent data from Baker-Hughes shows there are an increasing number of idle rigs in the state. The previous interpretation of the data was that the industry was drilling less in the San Juan basin, but drilling more in the Permian basin. Over the past two months, however, rig counts in both basins have plummeted. The consensus group is closely monitoring developments in this area.
- The volatility in the financial markets and the meltdown of the credit market has significantly affected immediate returns and State Treasurer's Office balances. The longer-term effect on interest rates and STO investments is still to be determined. STO has had difficulty with some investments – particularly mutual funds.
- The model for balances in the Tobacco Settlement Permanent Fund assumes a 23% drop in the corpus of the fund and a 4% investment return for FY09. If the stock markets continue to fall, that 23% could become 25% or 30% and the balances in the fund, which are considered General Fund reserves, when coupled with revenue declines from other sources could reduce the level of those reserves even further.

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

December 2008	FY2008		FY2009		FY2010		FY2011		FY2012		FY2013	
	Oct 08 Est.	Dec 08 Est.	Oct 08 Est.	Dec 08 Est.	Oct 08 Est.	Dec 08 Est.	Oct 08 Est.	Dec 08 Est.	Oct 08 Est.	Dec 08 Est.	Oct 08 Est.	Dec 08 Est.
NATIONAL ECONOMIC INDICATORS												
US Real GDP Growth (level annual avg, % y-o-y)*	2.4	2.4	0.3	-0.4	1.2	0.1	2.9	2.6	3.3	3.4	3.0	3.3
US Inflation Rate (CPI, annual avg, % y-o-y)**	3.7	3.7	3.2	1.6	1.3	0.2	2.3	3.1	2.5	2.6	2.5	2.3
Federal Funds Rate (%)	3.71	3.71	1.41	0.97	1.95	0.62	3.94	2.31	4.75	4.65	4.75	4.75
NEW MEXICO LABOR MARKET AND INCOME DATA												
NM Non-Agricultural Employment Growth (%)	1.0	1.0	0.5	-0.1	1.2	0.6	1.8	1.3	1.9	1.6	1.9	1.9
NM Personal Income Growth (%)***	5.7	5.7	5.7	5.4	3.0	1.9	4.1	3.2	5.2	4.7	5.4	5.2
NM Private Wages & Salaries Growth (%)	6.0	6.0	3.6	2.5	3.4	2.0	4.4	3.1	4.6	3.9	4.9	4.7
NEW MEXICO CRUDE OIL AND NATURAL GAS OUTLOOK												
NM Oil Price ($/barrel)	$92.44	$92.61	$94.00	$69.00	$90.00	$59.00	$90.00	$68.00	$95.00	$77.00	$100.00	$82.00
NM Taxable Oil Sales (million barrels)	60.0	60.1	60.0	60.0	59.4	59.4	58.8	58.8	58.2	58.2	57.8	57.8
NM Gas Price ($ per thousand cubic feet)	$8.30	$8.28	$6.75	$6.05	$7.10	$6.35	$7.50	$7.10	$7.60	$7.20	$7.60	$7.20
NM Taxable Gas Sales (billion cubic feet)	1,429	1,433	1,415	1,415	1,380	1,380	1,345	1,345	1,312	1,312	1,280	1,280

* real GDP base is BEA chained 2000 dollars, billions, annual rate.
** CPI is all-Urban, BLS 1982-84=1.00 base.
*** Personal Income growth rates are for the calendar year in which each fiscal year begins.

Sources: November 2008 economic indicators based on November Global Insight (national), November FOR-UNM (state), energy forecast on November PIRA, NY-MEX, Global Insight and DOE/EIA.

Note: This quarter, a change of methodology to correctly control seasonality in quarterly annualizations occurred for real GDP and CPI and has also been applied to the prior estimate, for consistency.

APPENDIX TABLE 2: CONSENSUS REVENUE FORECAST

December 2008

(dollars in millions) (1)

	FY 2008			FY 2009				FY 2010			
	Dec 08 Prelim	Change from Dec 07 Estimate	% Chng From FY07	Oct 08 Estimate	Dec 08 Estimate	Chg from Previous Estimate	% Chng From FY08	Oct 08 Estimate	Dec 08 Estimate	Chg from Previous Estimate	% Chng From FY09
Gross Receipts	1,845.6	-64.4	0.3%	1,903.3	1,900.0	-3.3	2.9%	1,960.4	1,914.0	-46.4	0.7%
Compensating	63.8	-0.2	4.0%	65.5	70.0	4.5	9.8%	66.8	66.8	0.0	-4.6%
Total General Sales Taxes	**1,909.4**	**-64.7**	**0.4%**	**1,968.8**	**1,970.0**	**1.2**	**3.2%**	**2,027.2**	**1,980.8**	**-46.4**	**0.5%**
Tobacco	48.1	1.9	2.9%	48.2	47.8	-0.4	-0.6%	48.4	47.9	-0.5	0.2%
Alcohol	25.1	-0.7	-6.1%	25.6	25.7	0.1	2.5%	26.0	26.3	0.3	2.4%
Insurance	107.7	2.0	-0.3%	121.5	121.5	0.0	12.8%	135.0	135.0	0.0	11.1%
Fire Protection Fund	21.1	2.0	5.9%	19.2	19.2	0.0	-9.3%	18.0	18.0	0.0	-6.0%
Motor Vehicle Excise	127.6	-8.4	-2.8%	121.2	115.0	-6.2	-9.9%	124.9	120.0	-4.9	4.3%
Gaming tax	56.2	-12.1	-20.8%	79.5	80.4	1.0	43.3%	73.9	75.0	1.1	-6.7%
Leased Vehicle Surcharge	7.5	2.9	24.9%	5.5	5.5	0.0	-27.1%	5.9	5.9	0.0	7.3%
Other (2)	2.9	0.9	-4.8%	3.1	2.5	-0.60	-14.8%	3.1	2.5	-0.7	0.4%
Total Selective Sales Taxes	**396.3**	**-11.5**	**-4.1%**	**423.7**	**417.6**	**-6.2**	**5.4%**	**435.2**	**430.6**	**-4.5**	**3.1%**
Personal Income	1,198.4	50.6	1.5%	1,198.4	1,220.0	21.6	1.8%	1,234.3	1,250.0	15.7	2.5%
Corporate & Franchise Income	403.5	-36.5	-12.3%	350.0	338.0	-12.0	-16.2%	351.0	320.0	-31.0	-5.3%
Estate	0.0	0.0	-48.9%	0.0	0.0	0.0		0.0	0.0	0.0	
Total Income Taxes	**1,602.0**	**14.2**	**-2.3%**	**1,548.4**	**1,558.0**	**9.6**	**-2.7%**	**1,585.3**	**1,570.0**	**-15.3**	**0.8%**
Oil & Gas School Tax	557.3	129.4	32.6%	462.2	394.0	-68.2	-29.3%	463.2	382.5	-80.7	-2.9%
Oil Conservation Tax	27.1	7.3	35.8%	22.1	18.2	-4.0	-32.8%	22.0	17.5	-4.5	-3.8%
Resources Excise	11.7	-1.6	8.2%	13.4	13.6	0.2	16.7%	14.5	14.8	0.4	8.8%
Natural Gas Processors	30.6	-4.7	-14.1%	32.3	32.3	0.0	5.5%	33.7	32.4	-1.3	0.3%
Total Mineral Production Taxes	**626.7**	**130.5**	**28.8%**	**530.0**	**458.0**	**-72.0**	**-26.9%**	**533.4**	**447.2**	**-86.2**	**-2.4%**
Total License Fees	**50.7**	**1.0**	**3.5%**	**50.5**	**50.4**	**-0.1**	**-0.6%**	**52.2**	**51.4**	**-0.8**	**2.0%**
Land Grant Permanent Fund	390.5	-0.2	7.1%	433.7	433.2	-0.5	10.9%	444.5	441.7	-2.8	2.0%
Earnings on State Balances	55.9	-23.1	-15.9%	21.5	22.0	0.5	-60.7%	25.0	20.0	-5.0	-9.1%
Severance Tax Perm. Fund	177.2	0.0	3.6%	191.3	191.3	0.0	8.0%	192.9	189.5	-3.4	-0.9%
Total Investment Income	**623.6**	**-23.3**	**3.6%**	**646.5**	**646.5**	**0.0**	**3.7%**	**662.4**	**651.2**	**-11.2**	**0.7%**
Federal Mineral Leasing	564.2	10.5	12.6%	504.0	411.5	-92.5	-27.1%	502.0	409.4	-92.6	-0.5%
State Land Office	46.1	-1.2	-8.6%	42.0	37.4	-4.7	-19.0%	42.0	36.7	-5.3	-1.7%
Total Rents, Royalties	**610.3**	**9.3**	**10.6%**	**546.0**	**448.9**	**-97.2**	**-26.5%**	**544.0**	**446.1**	**-97.9**	**-0.6%**
Total Miscellaneous Receipts	**50.0**	**14.6**	**35.1%**	**43.9**	**42.6**	**-1.2**	**-14.8%**	**44.2**	**42.9**	**-1.3**	**0.7%**
Tribal Revenue Sharing	66.6	2.1	18.5%	72.8	72.0	-0.8	8.2%	77.4	73.1	-4.3	1.5%
Reversions	59.3	20.2	60.8%	58.8	39.3	-19.5	-33.7%	58.8	40.0	-18.8	1.8%
Total Recurring Revenue	**5,994.6**	**92.4**	**3.8%**	**5,889.4**	**5,703.3**	**-186.1**	**-4.9%**	**6,020.1**	**5,733.3**	**-286.8**	**0.5%**
Rebate (Sept. 2008)				-55.7	-55.7	0.0					
Governor's Savings Plan						0.0					
Other Non-Recurring	47.1	0.1				0.0	-100.0%	0.0	0.0	0	**0.0%**
Grand Total Revenue	**6,041.7**	**92.5**	**4.6%**	**5,833.7**	**5,647.6**	**-186.1**	**-6.5%**	**6,020.1**	**5,733.3**	**-286.8**	**1.5%**
Oil and gas share of General Fund	21.2%			18.0%	14.7%			17.7%	15.3%		

(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

December 2008

(dollars in millions) (1)

	FY 2011				FY 2012				FY 2013			
	Oct 08	Dec 08	Chg from Previous	% Chng From	Oct 08	Dec 08	Chg from Previous	% Chng From	Oct 08	Dec 08	Chg from Previous	% Chng From
	Estimate	Estimate	Estimate	FY10	Estimate	Estimate	Estimate	FY11	Estimate	Estimate	Estimate	FY12
Gross Receipts	2,041.6	1,973.0	-68.6	3.1%	2,129.6	2,050.0	-79.6	3.9%	2,225.4	2,138.0	-87.4	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	**2,106.0**	**2,037.4**	**-68.6**	**2.9%**	**2,196.8**	**2,117.2**	**-79.6**	**3.9%**	**2,295.5**	**2,208.1**	**-87.4**	**4.3%**
Tobacco	48.6	48.1	-0.5	0.4%	48.9	48.4	-0.5	0.6%	49.1	48.6	-0.5	0.4%
Alcohol	26.4	26.8	0.4	1.6%	26.7	27.3	0.5	1.9%	27.3	27.8	0.5	1.9%
Insurance	142.2	142.2	0.0	5.3%	149.7	149.7	0.0	5.3%	157.6	157.6	0.0	5.3%
Fire Protection Fund	16.4	16.4	0.0	-9.2%	14.7	14.7	0.0	-10.1%	13.1	13.1	0.0	-10.9%
Motor Vehicle Excise	128.6	123.6	-5.0	3.0%	132.5	127.3	-5.2	3.0%	136.4	131.1	-5.3	3.0%
Gaming tax	74.0	80.7	6.7	7.6%	74.2	81.3	7.1	0.8%	74.4	81.6	7.2	0.3%
Leased Vehicle Surcharge	5.8	5.8	0.0	-2.5%	5.8	5.8	0.0	1.4%	5.8	5.8	0.0	0.2%
Other (2)	3.2	2.5	-0.7	0.4%	3.3	2.5	-0.8	0.4%	3.3	2.5	-0.8	0.4%
Total Selective Sales Taxes	**445.1**	**445.9**	**0.8**	**3.5%**	**455.8**	**457.0**	**1.2**	**2.5%**	**467.0**	**468.1**	**1.1**	**2.4%**
Personal Income	1,306.3	1,290.0	-16.3	3.2%	1,389.3	1,350.0	-39.3	4.7%	1,476.4	1,420.0	-56.4	5.2%
Corporate & Franchise Income	364.0	330.0	-34.0	3.1%	364.0	340.0	-24.0	3.0%	370.0	350.0	-20.0	2.9%
Estate	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0	
Total Income Taxes	**1,670.3**	**1,620.0**	**-50.3**	**3.2%**	**1,753.3**	**1,690.0**	**-63.3**	**4.3%**	**1,846.4**	**1,770.0**	**-76.4**	**4.7%**
Oil & Gas School Tax	473.4	421.8	-51.6	10.3%	477.8	432.0	-45.8	2.4%	478.4	430.2	-48.2	-0.4%
Oil Conservation Tax	22.3	19.3	-3.0	10.5%	22.5	19.9	-2.6	3.1%	22.6	19.9	-2.7	
Resources Excise	15.6	16.1	0.5	8.8%	16.9	17.3	0.4	7.5%	18.2	18.6	0.4	-0.1%
Natural Gas Processors	29.4	27.4	-2.0	-15.4%	30.3	28.9	-1.4	5.5%	30.1	28.4	-1.7	-1.7%
Total Mineral Production Taxes	**540.8**	**484.6**	**-56.2**	**8.4%**	**547.5**	**498.1**	**-49.4**	**2.8%**	**549.3**	**497.1**	**-52.2**	**-0.2%**
Total License Fees	**55.4**	**52.8**	**-2.6**	**2.7%**	**58.8**	**54.8**	**-4.0**	**3.8%**	**62.4**	**57.7**	**-4.8**	**5.3%**
Land Grant Permanent Fund	451.6	445.2	-6.4	0.8%	459.3	448.5	-10.8	0.7%	438.0	423.0	-15.0	-5.7%
Earnings on State Balances	44.0	30.0	-14.0	50.0%	55.0	60.0	5.0	100.0%	58.0	65.6	7.6	9.3%
Severance Tax Perm. Fund	192.4	184.7	-7.7	-2.5%	192.3	179.7	-12.6	-2.7%	189.0	171.5	-17.5	-4.6%
Total Investment Income	**688.0**	**659.9**	**-28.1**	**1.3%**	**706.6**	**688.2**	**-18.4**	**4.3%**	**685.0**	**660.1**	**-24.9**	**-4.1%**
Federal Mineral Leasing	505.0	451.0	-54.0	10.2%	500.0	462.6	-37.4	2.6%	496.0	462.1	-33.9	-0.1%
State Land Office	42.3	39.0	-3.3	6.1%	42.7	39.8	-2.9	2.3%	42.6	39.7	-2.9	-0.4%
Total Rents, Royalties	**547.3**	**489.9**	**-57.4**	**9.8%**	**542.7**	**502.5**	**-40.2**	**2.6%**	**538.6**	**501.8**	**-36.8**	**-0.1%**
Total Miscellaneous Receipts	**44.6**	**43.2**	**-1.3**	**0.7%**	**45.0**	**43.5**	**-1.4**	**0.7%**	**45.3**	**43.8**	**-1.5**	**0.7%**
Tribal Revenue Sharing	82.6	79.0	-3.6	8.1%	87.7	83.0	-4.7	5.0%	93.1	87.2	-5.9	5.0%
Reversions	58.8	41.2	-17.6	3.0%	58.8	42.4	-16.4	3.0%	58.8	43.7	-15.1	3.0%
Total Recurring Revenue	**6,238.8**	**5,954.0**	**-284.8**	**3.8%**	**6,452.7**	**6,176.7**	**-276.0**	**3.7%**	**6,641.3**	**6,337.6**	**-303.8**	**2.6%**
Rebate (Sept. 2008)												
Governor's Savings Plan												
Other Non-Recurring	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0		0.0
Grand Total Revenue	**5,954.0**	**-284.8**	**3.8%**	**6,452.7**	**6,176.7**	**-276.0**	**3.7%**	**6,641.3**	**6,337.6**	**-303.8**	**2.6%**	**5,954.0**
Oil and Gas share of Gen Fund	16.1%			16.6%	15.9%			16.1%	15.5%			16.1%

Appendix Table 3 – General Fund Financial Summary

December 2008 Consensus Forecast

(Dollars in Millions)

	Audited FY07	Preliminary FY08	Estimated FY09	Estimated FY10
APPROPRIATION ACCOUNT				
REVENUE				
Recurring Revenue, December 2008 Consensus Estimates	5,774.5	5,994.6	5,703.3	5,733.3
Nonrecurring Revenue, December 2008 Consensus Estimates	0.0	47.1	(55.7)	
Nonrecurring Revenue, December 2008 Governor's Savings Plan				
TOTAL REVENUE	**5,774.5**	**6,041.7**	**5,647.6**	**5,733.3**
APPROPRIATIONS				
Recurring Appropriations	5,113.1	5,675.0	6,026.8	5,733.3
Nonrecurring Appropriations	814.5	294.9	75.0	
TOTAL APPROPRIATIONS	**5,927.6**	**5,969.8**	**6,101.8**	**5,733.3**
Transfer to/from General Fund Operating Reserve	**(153.1)**	**71.9**	**(454.2)**	**-**
GENERAL FUND OPERATING RESERVE				
Beginning Balance	359.5	156.0	226.4	(229.4)
Reversions	0.4			
Appropriations	(10.8)	(1.5)	(1.5)	(1.5)
Transfers In Appropriation Account	-	71.9	-	-
Transfers Out Appropriation Account	(153.1)	-	(454.2)	-
Other	(40.0)	-	-	-
Ending Balance	**156.0**	**226.4**	**(229.4)**	**(230.9)**
Ending Balances as a Percentage of Prior Year Recurring Appropriations	3.3%	4.4%	-4.0%	-3.8%
STATE SUPPORT RESERVE				
Beginning Balance	-	1.0	1.0	1.0
Transfers In	1.0	-	-	-
Transfers Out	-	-	-	-
Ending Balance	**1.0**	**1.0**	**1.0**	**1.0**
APPROPRIATION CONTINGENCY FUND				
Beginning Balance, Excluding Education Reform	19.9	47.7	26.7	(6.3)
Expenditures	(13.8)	(26.9)	(33.0)	(20.0)
Revenue, Transfers and Reversions	41.6	5.9		-
Ending Balance, Excluding Education Reform	**47.7**	**26.7**	**(6.3)**	**(26.3)**
Education Reform, Beginning Balance	79.8	74.9	67.4	67.4
Transfers In	-	-	-	-
Transfers Out	(4.9)	(7.5)	-	
Ending Balance, Education Reform	**74.9**	**67.4**	**67.4**	**67.4**
Ending Balance	**122.6**	**94.1**	**61.1**	**41.1**
TAX STABILIZATION RESERVE				
Beginning Balance	254.4	254.4	254.4	254.4
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Ending Balance	**254.4**	**254.4**	**254.4**	**254.4**
Ending Balances as a Percentage of Prior Year Recurring Appropriations	5.4%	5.0%	4.5%	4.2%
TOBACCO SETTLEMENT PERMANENT FUND				
Beginning Balance	84.6	116.7	137.9	131.2
Transfers In, December 2008 Consensus Estimate	36.2	44.9	47.2	50.4
Transfers Out	(18.1)	(22.4)	(23.6)	(25.2)
Gains or (Losses)	14.0	(1.3)	(30.3)	3.9
Ending Balance	**116.7**	**137.9**	**131.2**	160.2
TOTAL BALANCES	**650.6**	**713.7**	**218.2**	**225.8**
Reserves as a Percentage of Current-year Recurring Appropriations	**12.7%**	**12.6%**	**3.6%**	**3.9%**
New Money – recurring				**(293.5)**
Deficit for current year (Reserving 10% of current year recur. Approps)			**(384.4)**	
Nonrecurring subject to appropriation				**(347.5)**

Notes to General Fund Financial Summary:

"Reserves as a Percentage of Current-year Recurring Appropriations" is calculated by dividing each year's ending total reserve balance by the total recurring appropriations for that year. E.G. for FY08, 218.2/6,026.8 = 3.62%

"New Money – recurring" is calculated by subtracting ***previous*** year's recurring appropriations from ***current*** year's recurring revenue. E.G, for FY10, 5,733.3 - 6,026.8 = 293.5

"Deficit for current year (Reserving 10% of current year recur. approps)" is calculated by subtracting 10% of current year's appropriations from the level of total reserve balance for that year. E.G., for FY09, 218.2 - 10% x 6,026.8 = (384.4)

"Nonrecurring subject to appropriation" is calculated by subtracting total reserve balances for the budget year from 10% of the same year's total recurring revenue. E.G. for FY10, 225.8 - 10% x 5,733.3 = (347.5)

"Restricted sub-accounts" is calculated by summing the final balance for the fiscal year in the "Education Lock-box", the Tax Stabilization Reserve and the Tobacco Settlement Permanent Fund and dividing by the total reserve balances for the fiscal year. E.G., for FY09, (67.4 + 254.4 +131.2)/ 218.2 = 207.5%

Further note that the budget for FY10 must be balanced and the Governor and Legislature apparently agree that spending and revenues must result in 10% General Fund reserve balances at the end of FY10.