Presentation to the
New Mexico Legislative Finance Committee

General Fund Consensus Revenue Estimates
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Executive Summary

Today's testimony presents General Fund revenue estimates recently developed by the Consensus Revenue Estimating Group (CREG) in November 2010. The Group consists of professional economists at the Department of Finance and Administration (DFA), Taxation and Revenue Department (TRD), Department of Transportation (DOT) and Legislative Finance Committee (LFC). The new estimates revised the October FY11 General Fund recurring revenue estimate upward by $55.8 million reflecting continuing albeit slow improvement in the NM economy. The FY12 "new money", FY12 recurring revenue less FY11 recurring appropriations, is $187 million.

This estimate, a 1.1 percent upward revision of the October estimate, marks the 3rd consecutive estimate showing very nearly the same level of growth in General Fund Revenues in FY11 and FY12. The preponderance of evidence now suggests that the bottom of the economic cycle has been realized and that by some measures New Mexico is among the leaders in personal income growth and employment.

Changes in the General Fund revenue estimate resulting from the new projections are summarized in Table 1.1. The largest revisions in the current estimate are: for Gross Receipts Taxes (GRT) a $30 million increase in FY11 and a $31.6 million increase in FY12; for Personal Income Tax (PIT) a $12 million decrease in FY 11 and a $13 million decrease in

FY12; for Federal Mineral Leasing (FML) a $20.9 million increase in FY11 and a $26.8 million increase in FY12; and for the State Land Office (SLO) a $10.1 million increase in FY11. The figures presented for the fiscal year ending June 30, 2010, are preliminary unaudited estimates based on the Financial Control Division's monthly general fund report; the FY10 audit is on schedule and will be completed within the next couple of weeks, if not sooner.

Table 1.1 -- Table of Changes
(In Millions of Dollars)

	DFA FY10 Un-Audited	FY11 Estimate	FY12 Estimate	FY13 Estimate	FY14 Estimate	FY15 Estimate
Recurring Revenues						
October 2010 Forecast	4,818.4	5,108.5	5,348.1	5,594.1	5,815.8	6,036.3
December 2010 Forecast	4,798.7	5,164.3	5,389.8	5,615.3	5,827.3	6,056.6
Change from October Forecast	-19.7	55.8	41.7	21.2	11.5	20.3
Total Revenues						
October 2010 Forecast	5,278.7	5,108.5	5,355.0	5,590.8	5,814.9	6,036.3
December 2010 Forecast	5,278.6	5,164.3	5,396.7	5,612.0	5,826.4	6,056.6
Change from October Forecast	-0.1	55.8	41.7	21.2	11.5	20.3

Table 1.2 presents a summary of changes in projected FY11 revenues by revenue source. The FY11 estimate for GRT increased $30 million from the October estimate, a projected 6.5 percent increase over FY10. There is essentially no change from October for Compensating Tax and Selective Sales Taxes. Only PIT and Interest have been revised significantly downward, $12 million and $2.8 million, respectively, but increases in Rents and Royalties combined with the projected increase in GRT result in a net improvement of $55.8 million in recurring revenue for the December FY11 outlook compared to the October forecast only 6 weeks ago.

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Table 1.2 FY11 Major Revisions by Tax Source
(In Millions of Dollars)

	October Estimate	December Estimate	Dollar Change	Percentage Change
Gross Receipts and CompensatingTax	1,773.9	1,804.5	30.6	1.7%
Personal Income Tax	1,067.0	1,055.0	(12.0)	-1.1%
Oil and Gas School Tax	325.3	328.5	3.2	1.0%
STO Interest	19.0	16.2	(2.8)	-14.7%
Federal Mineral Leasing	347.3	368.2	20.9	6.0%
State Land Office	48.7	58.8	10.1	20.7%
All Other Sources of Revenues			5.8	
Summary of FY11 Forecast Changes			55.8	1.1%

Table 1.3 presents the General Fund Financial Summary based on these current revenue estimates, adjusted for legislation. The LFC and DFA have conducted multiple line by line reviews of the GFFS and have brought our separate assessments of General Fund status within a fraction of 1 percent. The table shows the State's general fund reserves will end FY10 at 5.2percent of FY10 recurring appropriations and FY11 at 4.5 percent of FY11 recurring appropriations, prior to making any provisions for expenses of the 2011 legislative session and addressing any supplemental appropriation needs.

Over time, there will be a need to restore General Fund reserves to an appropriate level. For FY11, nearly $25 million will be required to restore reserves to 5 percent of current-year recurring appropriations, $155 million to 7.5 percent and $285 million to 10 percent.

As recently reported, the Executive's budget outlook for FY12 indicated a shortfall of roughly $450 million. The numbers do not represent any sort of budget scenario or budget plan. They simply represent an outlook that is based on what revenue is available, the most recent available Medicaid projections, state agency requests, and the costs associated with expiring solvency initiatives and statutorily-required increases in employer contributions for retirement and retiree health care. The Executive did not make any assumptions about how such growth or expiring solvency initiatives that are contained in the outlook would be addressed by the new Administration, and the outlook was designed simply to illustrate the breadth of the decisions that must be made by the Legislature and governor-elect. Now that we are in the midst of transition, Governor-elect Martinez' transition team is aggressively pursuing options to balance the FY12 budget. Note that that budget request for Public School Support was received earlier this week. The Public Education Department recommended a general fund increase of more than $145 million, $100 million of which was included in the Executive's FY12 outlook. DFA is currently in the process of analyzing the details of the request.

Table 1.3
General Fund Financial Summary
December 2010 Consensus Revenue Estimate
(Dollars in Millions)

	Preliminary Unaudited FY10	Estimated FY11	Estimated FY12
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue	4,798.7	5,164.3	5,389.8
Nonrecurring Revenue	479.9	2.1	6.9
TOTAL REVENUE	**5,278.6**	**5,166.4**	**5,396.7**
APPROPRIATIONS			
Recurring Appropriations	5,358.0	5,202.8	5,389.8
Nonrecurring Appropriations	93.2	1.1	-
TOTAL APPROPRIATIONS	**5,451.1**	**5,203.9**	**5,389.8**
Transfers from/(to) other funds	**172.6**	**37.5**	**-**
Transfer to/from General Fund Operating Reserve	**-**	**(0.0)**	**6.9**
GENERAL FUND OPERATING RESERVE			
Beginning Balance	37.5	36.2	34.7
Appropriations	(1.2)	(1.5)	-
Transfers Out To Appropriation Account	-	(0.0)	-
Ending Balance	**36.2**	**34.7**	**41.6**
Ending Balances as a Percentage of Prior Year Recurring Appropriations	**0.6%**	**0.6%**	**0.8%**
STATE SUPPORT RESERVE			
Beginning Balance	1.0	1.0	1.0
Ending Balance	**1.0**	**1.0**	**1.0**
APPROPRIATION CONTINGENCY FUND			
Beginning Balance, Excluding Education Reform	11.5	29.6	19.0
Expenditures	(9.9)	(16.0)	(16.0)
Revenue, Transfers and Reversions	28.0	5.3	5.3
Ending Balance, Excluding Education Reform	**29.6**	**19.0**	**8.3**
Education Reform, Beginning Balance	19.0	53.0	37.0
Transfers In	40.0	-	-
Transfers Out	(6.0)	(16.0)	-
Ending Balance, Education Reform	**53.0**	**37.0**	**37.0**
Ending Balance	**82.7**	**56.0**	**45.4**
TAX STABILIZATION RESERVE			
Beginning Balance	198.7	26.1	0.7
Transfers Out	(172.6)	(25.4)	-
Ending Balance	**26.1**	**0.7**	**0.7**
Ending Balances as a Percentage of Prior Year Recurring Appropriations	0.4%	0.0%	0.0%
TOBACCO SETTLEMENT PERMANENT FUND			
Beginning Balance	121.0	132.0	142.9
Transfers In, December 2008 Consensus Estimate	40.9	40.0	39.5
Transfers Out	(40.9)	(40.0)	(19.8)
Gains or (Losses)	11.1	10.8	11.7
Ending Balance	**132.0**	**142.9**	**174.3**
TOTAL GENERAL FUND RESERVES	**278.1**	**235.3**	**262.9**
Reserves as a Percentage of Current-year Recurring Appropriations	**5.2%**	**4.5%**	**4.9%**

Table 1.4 summarizes the general fund reserve transfers the Legislature authorized to the appropriation account in FY10 and FY11.

Table 1.4 -- Authorized Transfers from Reserve Funds to the General Fund
(In Millions of Dollars)

Law	Reserve Fund	Authorized	Projected Use FY10	Projected Use FY11	Balance
Laws 2009, 1st SS, Chapter 3 (HB 6)	Tax Stabilization Reserve	115.0	115.0		-
Laws 2010, 2nd SS, Chapter 6 (HB 2)	Tax Stabilization Reserve	83.0	57.6	25.4	-
Laws 2010, 2nd SS, Chapter 6 (HB 2)	Appropriation Contingency Fund	49.0	-	12.0	37.0
Total		247.0	172.6	37.4	37.0

Based on the Financial Control Division's final general fund report for FY10, the Executive estimates it will transfer $172.6 million from reserve accounts to the general fund to close out FY10, with $115 million coming from the October 2009 authorization from the Tax Stabilization Reserve and the remaining $57.6 million coming from the March 2010 authorization from the Tax Stabilization Reserve. For FY11, the Executive estimates it will transfer the remaining $25.4 million authorization from the Tax Stabilization Reserve and only $14.2 million of the $49 million authorization from the Appropriation Contingency Fund.

As previously discussed with this committee, Section 14 of the General Appropriation Act of 2010 requires the Governor, with Board of Finance approval, to proportionately reduce FY11 general fund allotments for most general fund appropriations in the aggregate amount of a projected deficit – when revenues and transfers to the General fund are insufficient to cover appropriations. Based on the July 2010 consensus general fund revenue estimate, general fund allotments were reduced $150.9 million. The October 2010 consensus general fund revenue estimate indicated an additional $18.5 million shortfall, but the Administration delayed action to further reduce allotments until final FY10 general fund results and the December 2010 general fund consensus revenue estimates became available.

Based on this consensus general fund revenue estimate, additional allotment reductions are no longer required and $37 million in authorized general fund reserve transfers will not be used. Paragraph 4 of Subsection A of Section 14 of the General Appropriation Act of 2010 states that "if a subsequent general fund consensus revenue forecast released during fiscal year 2011 projects revenues to increase above the previous forecast, the allotments shall be increased to reflect the new forecast, up to the amount of the original appropriations." Technically, appropriations can be restored in the amount of $37 million and the remaining $37 million in transfer authority can be used for FY11. The $37 million represents 0.67 percent of current recurring appropriations. There, however, remains a recurring revenue to recurring appropriation imbalance in the Appropriation Account, and that imbalance would increase from $39.6 million to $75.5 million if allotments were increased. Also, the estimated FY11 year-end reserves would decrease from 4.5 percent of recurring appropriations to 3.8 percent of recurring appropriations, well short of a 5 percent target. The delay will provide the Legislature and Governor an opportunity to review another revenue estimate and revisit the existing Section 14 provisions.

Adjustments and Non-recurring Revenue FY10 and FY11

Table 1.5 details the nonrecurring adjustments and revenue for FY10 and FY11. Most all the nonrecurring initiatives of nearly $480 million relate to the final FY10 solvency plan results. In addition, nearly $17 million in FY10 fiscal year-end reversions were scored nonrecurring. Over the past six years, reversions have averaged about $40 million per year; the amount scored as nonrecurring is the amount over and above the annual average.

Table 1.5 -- Detail of Adjustments and Nonrecurring Revenue for FY10 and FY11
(In Millions of Dollars)

	FY10			FY11		
	Oct-10	Dec-10	Chg from Prev Est	Oct-10	Dec-10	Chg from Prev Est
October 2009 Special Session:						
Chapter 4, 1st SS, 2009/HB 16 (reversions)	0.7	0.7	-	-	-	-
Chapter 7, 1st SS, 2009/SB 29 (reversions)	109.0	109.1	0.0	-	-	-
Chapter 5, 1st SS, 2009/HAFC/S HB17 & HB 33 (reversions)	3.7	3.7	-	-	-	-
Chapter 2, 1st SS/HB 3 (operating transfers)	107.8	107.8	(0.0)	-	-	-
Executive Order 2009-044, Expenditure Reductions (reversions)	79.0	79.0	(0.0)	-	-	-
Executive Order 2009-044, Furloughs (reversions)	8.6	8.6	(0.0)	-	-	-
			-			-
January 2010 Session/March 2010 Special Session:			-			-
Chapter 105, 2009/SB 182, Capital Outlay Reversions for Solvency	131.1	131.1	-	-		-
Chapter 2, 2nd SS/SB 2, Temporary Tax Amnesty Program	-	-	-	2.1	2.1	(0.0)
Use ARRA to supplant General Fund Expenditures	20.0	20.0	-	-	-	-
Subtotal solvency	460.0	460.0	(0.0)	2.1	2.1	(0.0)
Other Nonrecurring						
Reversions		16.9	16.9			
Miscellaneous revenues	-	3.0	3.0	-	-	-
Subtotal other nonrecurring	-	19.9	19.9	-	-	-
Total all nonrecurring	460.0	479.9	19.9	2.1	2.1	(0.0)
Authorized Transfers from Reserves:						
Chapter 3, 1st SS, 2009/Transfer from Tax Stabilization Reserve	115.0	115.0	-	-	-	-
Ch 6, 2nd SS/HB 2 Transfer from Tax Stabilization Reserve	57.6	57.6	-	24.9	25.4	0.5
Ch 6, 2nd SS/HB 2 Transfer from Appropriation Contingency Fund	-	-	-	49.0	12.0	(37.0)
Subtotal authorized transfers from reserves	172.6	172.6	-	73.9	37.4	(36.5)
Total adjustments and nonrecurring revenue	**632.6**	**652.5**	**19.9**	**76.0**	**39.5**	**(36.5)**

Summary of Revenue Outlook for FY12

The Consensus Revenue Estimate for FY12 recurring revenue is improved by .8percent from the October estimate as shown in Table 1.5. The largest sources of increase occurred in Gross Receipts, $31.6 million, and Federal Mineral Leasing, $26.8 million. PIT led all categories showing a decline with a downward revision of $13 million for FY12. The trends from FY11 are expected to continue through FY12, driven primarily by increases in personal income and an improved outlook as the recovery enters an expansionary phase.

Table 1.6 -- FY12 Major Revisions by Tax Source

(In Millions of Dollars)

	October Estimate	December Estimate	Dollar Change	Percentage Change
Gross Receipts and CompensatingTax	1,778.4	1,810.0	31.6	1.8%
Personal Income Tax	1,108.0	1,095.0	(13.0)	-1.2%
Oil and Gas School Tax	359.8	360.7	0.9	0.3%
STO Interest	21.5	20.2	(1.3)	-6.0%
Federal Mineral Leasing	371.2	398.0	26.8	7.2%
State Land Office	43.9	43.9	0.0	0.0%
All Other Sources of Revenues			(3.3)	
Summary of FY12 Forecast Changes			41.7	0.8%

New Mexico Economic Outlook

The Consensus Revenue Estimating Group relies on data provided by the New Mexico Workforce Solutions Department (WSD, formerly called the Department of Labor), PIRA, Global Insight (GI), the University of New Mexico's Bureau of Business Research (UNM-BBER), REDYN, the US Bureau of Labor Statistics (BLS), and Census, Federal Reserve Bank of Dallas, Eastern New Mexico University and the Blue Chip Economic Forecast published by the University of Arizona.

The current General Fund estimates are based on New Mexico economic conditions forecast in November 2010. The University of New Mexico's Bureau of Business and Economic Research, a primary forecasting service supporting this estimate, indicate that New Mexico's economy continued to improve during the third quarter of 2010.

Employment

According to the Department of Workforce Solutions, New Mexico's labor force currently consists of approximately 957,500 people, of which roughly 80,430 or 8.4 percent were unemployed in October 2010. The New Mexico labor force therefore consists of about half (48 percent) of New Mexico's approximately 2 million population. A one percent reduction in the unemployment rate therefore requires an increase of 9,575 jobs. Reducing the 8.4 percent rate of employment to 4.5 percent – generally considered full employment – would require increasing the number of New Mexicans that are employed by 37,343 people[1] – the approximate number of people that would normally attend a football game at the University of New Mexico's Lobo Stadium. Moreover, as the economy improves, people re-enter the labor force. Hence a higher number of jobs may be needed to reach the full employment level.

As shown in Table 2.1 below, the 8.4 percent October 2010 unemployment rate is 0.2 percent higher than the employment rate in the previous month. Analysts at the New Mexico Workforce Solutions Department view the increase as an anomaly, however, and expect the state's unemployment rate to continue trending downward after reaching a peak of 8.8 percent in March of 2010.

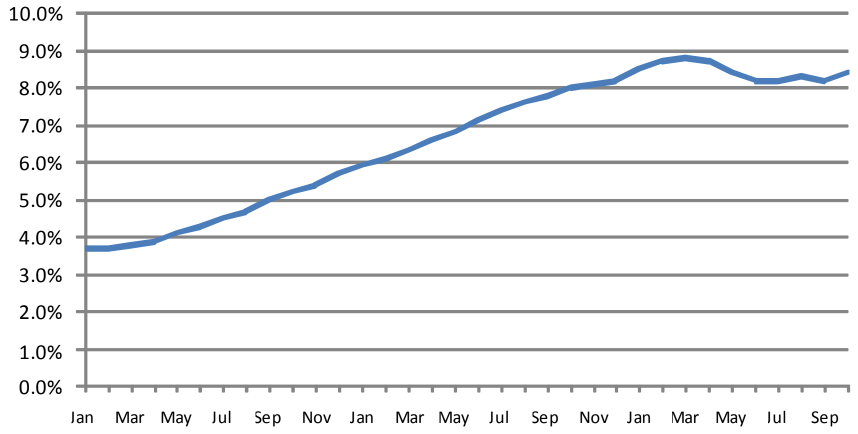
[1] 957,500 x 4.5% = 43,088 unemployed at full employment. 80,430 currently employed – 43,088 = 37,343 or the number of jobs needed to reduce the employment rate to 43,088.

Table 2.1: NM Seasonally Adjusted Unemployment Rates

	2010	2009	2008
January	8.5%	5.9%	3.7%
February	8.7%	6.1%	3.7%
March	8.8%	6.3%	3.8%
April	8.7%	6.6%	3.9%
May	8.4%	6.8%	4.1%
June	8.2%	7.1%	4.3%
July	8.2%	7.4%	4.5%
August	8.3%	7.6%	4.7%
September	8.2%	7.8%	5.0%
October	8.4%	8.0%	5.2%
November		8.1%	5.4%
December		8.2%	5.7%

Source: NM Dept of Workforce Solutions
http://www.dws.state.nm.us/

Figure 2.1: NM Seasonally Adjusted Unemployment Rates -- January 2008 through October 2010



Current Workforce Solutions Department data reports return to job growth, as opposed to job loss, after 23 months of year-over-year employment declines. Although jobs that were lost during the last two years have not been restored, current job gains outnumber current losses, suggesting economic recovery has begun because jobs are being created faster than they are being lost. Nonetheless, the Workforce Solutions analysts believe it take be several years before job creation eliminates the labor market slack created by the recession. They also note that during time of recovery from recessions, some industries will continue to lose jobs while others will experience employment increases. [2]

Revenue Estimate Details – Major Taxes

The detailed revenue forecast for FY10-FY15 is presented in Table 2.2. The discussion that follows addresses the major components of General Fund Revenue and changes to those components over the five year planning period.

[2] *Monthly News Release - Employment & Unemployment - November 24, 2010* http://www.dws.state.nm.us/LMI/dws-Mnews.html.

Table 2.2 General Fund Consensus Revenue Estimate

	FY 2010			FY 2011				FY 2012			
	Unaudited DFA Dec-2 Estimate	$ Chg from Prev	% Chng From FY 2009	Oct-10 Estimate	Dec-2 Estimate	Chg from Prev Est	% Chng From FY 2010	Oct-10 Estimate	Dec-2 Estimate	Chg from Prev Est	% Chng From FY 2011
Gross Receipts Tax	1,634.4	8.9	-10.8%	1,710.0	1,740.0	30.0	6.5%	1,778.4	1,810.0	31.6	4.0%
Compensating Tax	50.9	0.0	-27.2%	63.9	64.5	0.6	26.7%	67.7	67.7	0.0	5.0%
TOTAL GENERAL SALES	1,685.3	8.9	-11.4%	1,773.9	1,804.5	30.6	7.1%	1,846.1	1,877.7	31.6	4.1%
Tobacco Taxes	45.7	0.0	-7.8%	79.2	81.0	1.8	77.2%	77.5	78.6	1.1	-3.0%
Liquor Excise	25.6	0.0	-0.9%	26.3	25.5	(0.8)	-0.4%	26.5	26.0	(0.5)	2.0%
Insurance Taxes	130.3	0.7	6.9%	137.3	137.3	0.0	5.4%	142.2	142.2	0.0	3.6%
Fire Protection Fund	5.0	0.0	-83.8%	18.3	18.3	0.0	266.0%	17.4	17.4	0.0	-4.9%
Motor Vehicle Excise	92.3	0.1	8.2%	99.4	98.3	(1.1)	6.5%	108.6	107.4	(1.2)	9.3%
Gaming Excise	65.1	0.0	-5.9%	64.9	64.9	0.0	-0.3%	66.0	66.0	0.0	1.7%
Leased Vehicle Surcharge	5.7	0.0	16.3%	5.8	5.8	0.0	1.8%	5.6	5.6	0.0	-3.4%
Other	3.2	0.0	38.9%	3.0	3.0	0.0	-6.0%	3.0	3.0	0.0	0.0%
TOTAL SELECTIVE SALES	372.9	0.8	-7.9%	434.2	434.1	(0.1)	16.4%	446.8	446.2	(0.6)	2.8%
Personal Income Tax	956.6	(19.3)	-0.2%	1,067.0	1,055.0	(12.0)	10.3%	1,108.0	1,095.0	(13.0)	3.8%
Corporate Income Tax	125.1	0.0	-23.0%	220.0	220.0	0.0	75.9%	260.0	260.0	0.0	18.2%
TOTAL INCOME TAXES	1,081.7	(19.3)	-3.5%	1,287.0	1,275.0	(12.0)	17.9%	1,368.0	1,355.0	(13.0)	6.3%
Oil and Gas School Tax	324.5	9.9	-12.4%	325.3	328.5	3.2	1.2%	359.8	360.7	0.9	9.8%
Oil Conservation Tax	16.4	0.5	-10.2%	16.8	16.7	(0.1)	1.6%	18.5	18.2	(0.4)	8.9%
Resources Excise Tax	9.4	0.0	-16.3%	10.0	10.0	0.0	6.4%	10.0	10.0	0.0	0.0%
Natural Gas Processors Tax	40.4	0.0	0.1%	17.9	17.9	0.0	-55.7%	22.4	22.4	0.0	25.1%
TOTAL SEVERANCE TAXES	390.7	10.4	-11.2%	370.0	373.1	3.1	-4.5%	410.7	411.3	0.6	10.2%
LICENSE FEES	50.3	0.0	0.4%	52.0	52.0	0.0	3.4%	53.9	53.9	0.0	3.7%
LGPF Interest	437.1	0.0	0.8%	445.2	445.2	0.0	1.9%	451.6	451.6	0.0	1.4%
STO Interest	22.1	0.0	-67.4%	19.0	16.2	(2.8)	-26.7%	21.5	20.2	(1.3)	24.7%
STPF Interest	187.1	0.0	-2.2%	184.6	184.6	0.0	-1.3%	180.9	180.9	0.0	-2.0%
TOTAL INTEREST	646.3	0.0	-6.7%	648.8	646.0	(2.8)	0.0%	654.0	652.7	(1.3)	1.0%
Federal Mineral Leasing	355.3	0.0	-30.0%	347.3	368.2	20.9	3.6%	371.2	398.0	26.8	8.1%
State Land Office	67.7	0.0	85.8%	48.7	58.8	10.1	-13.1%	43.9	43.9	0.0	-25.3%
TOTAL RENTS & ROYALTIES	423.0	0.0	-22.2%	396.0	427.0	31.0	0.9%	415.1	441.9	26.8	3.5%
TRIBAL REVENUE SHARING	64.1	0.0	-2.0%	65.4	65.4	0.0	2.0%	67.2	67.2	0.0	2.8%
MISCELLANEOUS RECEIPTS	44.4	(0.5)	4.0%	47.2	47.2	0.0	6.3%	43.9	43.9	0.0	-7.0%
REVERSIONS	40.0	4.1	-30.0%	34.0	40.0	6.0	0.0%	42.4	40.0	(2.4)	0.0%
TOTAL RECURRING	4,798.7	4.4	-9.8%	5,108.5	5,164.3	55.8	7.6%	5,348.1	5,389.8	41.7	4.4%
TOTAL NON_RECURRING	479.9	(6.1)	12.4%	2.1	2.1	0.0	-99.6%	6.9	6.9	0.0	228.6%
GRAND TOTAL	5,278.6	(1.7)		5,110.6	5,166.4	55.8	-2.1%	5,355.0	5,396.7	41.7	4.5%

Table 2.2 General Fund Consensus Revenue Estimate

	FY 2013				FY 2014				FY2015			
	Oct-10 Estimate	Dec-2 Estimate	Chg from Prev Est	% Chng From FY 2012	Oct-10 Estimate	Dec-2 Estimate	Chg from Prev Est	% Chng From FY 2013	Oct-10 Estimate	Dec-2 Estimate	Chg from Prev Est	% Chng From FY 2014
Gross Receipts Tax	1,883.4	1,900.0	16.6	5.0%	1,980.0	1,995.0	15.0	5.0%	2,062.8	2,095.0	32.2	5.0%
Compensating Tax	71.2	71.2	0.0	5.2%	73.8	74.6	0.8	4.8%	76.6	79.1	2.5	6.0%
TOTAL GENERAL SALES	1,954.6	1,971.2	16.6	5.0%	2,053.8	2,069.6	15.8	5.0%	2,139.4	2,174.1	34.7	5.0%
Tobacco Taxes	76.6	77.8	1.2	-1.0%	75.6	76.8	1.2	-1.3%	74.6	75.9	1.3	-1.2%
Liquor Excise	26.8	26.4	(0.4)	1.5%	26.9	26.9	0.0	1.9%	27.0	27.2	0.2	1.1%
Insurance Taxes	147.3	147.3	0.0	3.6%	152.6	152.6	0.0	3.6%	158.1	158.1	0.0	3.6%
Fire Protection Fund	16.3	16.3	0.0	-6.3%	15.2	15.2	0.0	-6.7%	14.1	14.1	0.0	-7.2%
Motor Vehicle Excise	117.4	116.0	(1.4)	8.0%	121.6	120.4	(1.2)	3.8%	127.0	126.1	(0.9)	4.7%
Gaming Excise	67.2	67.2	0.0	1.8%	68.4	68.4	0.0	1.8%	69.6	69.6	0.0	1.8%
Leased Vehicle Surcharge	5.7	5.7	0.0	1.8%	5.6	5.6	0.0	-1.8%	5.5	5.5	0.0	-1.8%
Other	3.2	3.2	0.0	6.7%	3.3	3.3	0.0	3.1%	3.4	3.4	0.0	3.0%
TOTAL SELECTIVE SALES	460.5	459.9	(0.6)	3.1%	469.2	469.2	0.0	2.0%	479.3	479.9	0.6	2.3%
Personal Income Tax	1,149.0	1,135.0	(14.0)	3.7%	1,192.0	1,180.0	(12.0)	4.0%	1,239.0	1,225.0	(14.0)	3.8%
Corporate Income Tax	300.0	300.0	0.0	15.4%	340.0	340.0	0.0	13.3%	350.0	350.0	0.0	2.9%
TOTAL INCOME TAXES	1,449.0	1,435.0	(14.0)	5.9%	1,532.0	1,520.0	(12.0)	5.9%	1,589.0	1,575.0	(14.0)	3.6%
Oil and Gas School Tax	380.3	380.8	0.5	5.6%	389.7	384.1	(5.6)	0.9%	398.5	385.3	(13.2)	0.3%
Oil Conservation Tax	19.4	19.1	(0.3)	5.0%	19.9	19.2	(0.7)	0.5%	20.4	19.3	(1.1)	0.5%
Resources Excise Tax	10.0	10.0	0.0	0.0%	10.0	10.0	0.0	0.0%	10.0	10.0	0.0	0.0%
Natural Gas Processors Tax	21.0	21.0	0.0	-6.2%	20.3	20.3	0.0	-3.3%	24.6	24.6	0.0	21.2%
TOTAL SEVERANCE TAXES	430.7	430.9	0.2	4.8%	439.9	433.7	(6.2)	0.6%	453.5	439.2	(14.3)	1.3%
LICENSE FEES	57.3	57.3	0.0	6.3%	59.9	59.9	0.0	4.5%	61.9	61.9	0.0	3.3%
LGPF Interest	429.8	429.8	0.0	-4.8%	429.3	429.3	0.0	-0.1%	460.3	460.3	0.0	7.2%
STO Interest	33.1	39.8	6.7	97.0%	45.0	52.0	7.0	30.7%	50.0	64.7	14.7	24.4%
STPF Interest	174.0	174.0	0.0	-3.8%	166.1	166.1	0.0	-4.5%	173.6	173.6	0.0	4.5%
TOTAL INTEREST	636.9	643.6	6.7	-1.4%	640.4	647.4	7.0	0.6%	683.9	698.6	14.7	7.9%
Federal Mineral Leasing	401.8	417.8	16.0	5.0%	408.5	420.6	12.1	0.7%	412.6	417.7	5.1	-0.7%
State Land Office	42.8	42.8	0.0	-2.5%	45.2	45.2	0.0	5.6%	44.0	44.0	0.0	-2.7%
TOTAL RENTS & ROYALTIES	444.6	460.6	16.0	4.2%	453.7	465.8	12.1	1.1%	456.6	461.7	5.1	-0.9%
TRIBAL REVENUE SHARING	70.1	70.1	0.0	4.3%	73.0	73.0	0.0	4.1%	75.7	75.7	0.0	3.7%
MISCELLANEOUS RECEIPTS	46.7	46.7	0.0	6.4%	48.8	48.8	0.0	4.5%	50.5	50.5	0.0	3.5%
REVERSIONS	43.7	40.0	(3.7)	0.0%	45.1	40.0	(5.1)	0.0%	46.5	40.0	(6.5)	0.0%
TOTAL RECURRING	5,594.1	5,615.3	21.2	4.2%	5,815.8	5,827.3	11.5	3.8%	6,036.3	6,056.6	20.3	3.9%
TOTAL NON RECURRING	(3.3)	(3.3)	0.0	-147.8%	(0.9)	(0.9)	0.0	-72.7%	-	-	0.0	-100.0%
GRAND TOTAL	5,590.8	5,612.0	21.2	4.0%	5,814.9	5,826.4	11.5	3.8%	6,036.3	6,056.6	20.3	4.0%

Economic Indicators

Table 2.3 compares the October 2010 forecast assumptions with those of December 2010. Recent national economic indicators signify that projected growth in real gross domestic product in FY11 will increase slightly from 2.25 percent to 2.46 percent; however, overall growth from FY10 through FY15 is expected to be less robust than earlier anticipated. The December estimate of the national inflation rate is slightly higher than the October consensus estimate, while the estimate for the federal funds rates is essentially unchanged. Projected growth in New Mexico’s non-agricultural employment is now assumed to average approximately 1.08 percent between FY11 and FY15 – slightly above the

October average of 0.95 percent. The new assumptions for New Mexico personal income[3] and private wages and salaries growth are also slightly higher on average than the October figures.

The December forecast made only slight modifications to oil and gas commodity prices, given that there have not been any significant changes in the energy markets in the past two months. Oil is expected to be $76.87 per barrel for FY11 as compared to $76.50 per barrel which was forecasted in October, an increase of less than 0.5 percent. The price assumptions were revised downward for FY12 through FY15, but by amounts that average less than one percent. Similar minor revisions were applied to New Mexico taxable oil sales assumptions. New Mexico gas price assumptions were revised upward slightly for FY13 and FY14, but reduced slightly for FY15. Minor adjustments were also made to New Mexico taxable gas sales volumes. The December estimate assumed they would average 1,164 billion cubic feet in FY11 through FY15. The December estimate assumes they will average 1,155 billion cubic feet during the same time period. The minor adjustments to prices reflect the fact that energy markets have not changed significantly since the October forecast was prepared.

[3] Total personal income is defined by the U.S. Bureau of Economic Analysis as income received by persons from all sources. It includes income received from participation in production as well as from government and business transfer payments. It is the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment and capital consumption adjustment, rental income of persons with capital consumption adjustment, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. (http://en.wikipedia.org/wiki/Personal_income).

Table 2.3: U.S. AND NEW MEXICO ECONOMIC INDICATORS

	FY 2010		FY 2011		FY 2012		FY 2013		FY 2014		FY 2015	
	Oct 10 Prelim	Dec 10 Prelim	Oct 10 Est	Dec 10 Est	Oct 10 Est	Dec 10 Est	Oct 10 Est	Dec 10 Est	Oct 10 Est	Dec 10 Est	Oct 10 Est	Dec 10 Est
NATIONAL ECONOMIC INDICATORS												
US Real GDP Growth (level annual avg, % yoy)*	0.68	0.68	2.25	2.46	2.70	2.58	2.93	2.90	2.71	2.74	3.29	3.28
US Inflation Rate (CPI, annual avg, % yoy)**	1.00	0.99	1.30	1.32	1.75	1.70	1.96	2.03	2.01	2.09	2.13	2.22
Federal Funds Rate (%)	0.15	0.15	0.14	0.15	0.33	0.33	2.70	2.70	3.50	3.50	4.17	4.17
NEW MEXICO LABOR MARKET & INCOME DATA												
NM Non-Agricultural Employment Growth (%)	(3.28)	(3.21)	(0.29)	0.18	1.02	1.03	1.65	1.31	1.33	1.49	1.06	1.39
NM Personal Income Growth (%)***	0.03	0.03	3.16	3.48	2.02	2.20	3.17	3.16	3.88	3.90	4.77	5.13
NM Private Wages & Salaries Growth (%)	(2.30)	(2.30)	1.27	2.16	3.17	3.61	4.05	3.72	3.78	4.11	3.55	4.09
NEW MEXICO CRUDE OIL & NATURAL GAS DATA												
NM Oil Price ($/barrel)	$71.29	$71.29	$76.50	$76.87	$83.00	$82.69	$86.00	$85.60	$89.00	$88.01	$92.00	$90.46
NM Taxable Oil Sales (million barrels)	62.7	62.9	63.3	64.2	64.0	64.2	64.6	63.9	65.2	63.4	65.9	62.8
NM Gas Price ($ per thousand cubic feet)****	$5.18	$5.20	$5.00	$5.00	$5.75	$5.75	$6.30	$6.37	$6.55	$6.58	$6.80	$6.73
NM Taxable Gas Sales (billion cubic feet)	1,285	1,283	1,234	1,229	1,197	1,191	1,161	1,154	1,126	1,118	1,092	1,085

*Real GDP is BEA chained 2005 dollars, billions, annual rate.
**CPI is all urban consumers, published by the US Bureau of Labor Statistics where the base consists of data from 1982 to 1984.
***Personal Income growth rates are for the calendar year in which each fiscal year begins.
****Gas prices are estimated based on a formula incorporating NYMEX, PIRA and Global Insight future prices and a liquid premium based on oil prices.
Sources: October Global Insight, September PIRA and FOR-UNM BBER.

Gross Receipts and Compensating Taxes

Gross receipts and compensating taxes are the largest source of General Fund revenues and consistently generate more than one-third of total recurring revenue. After decades of positive growth these revenues began to stumble in FY09 with a 1.1 percent year-over-year drop. This was followed by a devastating 11.4 percent drop in FY10.

Figure 2.2 shows that monthly taxable gross receipts growth patterns were mixed at the end of FY08 and then turned increasingly negative. The momentum in taxable gross receipts deteriorated rapidly in calendar year 2009. The rate of decline finally began to slow last winter. In FY10, the overall gross receipts and compensating tax collections dropped by 11.4 percent from FY09, the largest drop in recent history; this is 12.4 percent, or $238 million, below FY08's peak level. Since the summer of 2010, there has begun an overall upward trend; however, the construction sector is still struggling to find its bottom.

Figure 2.2

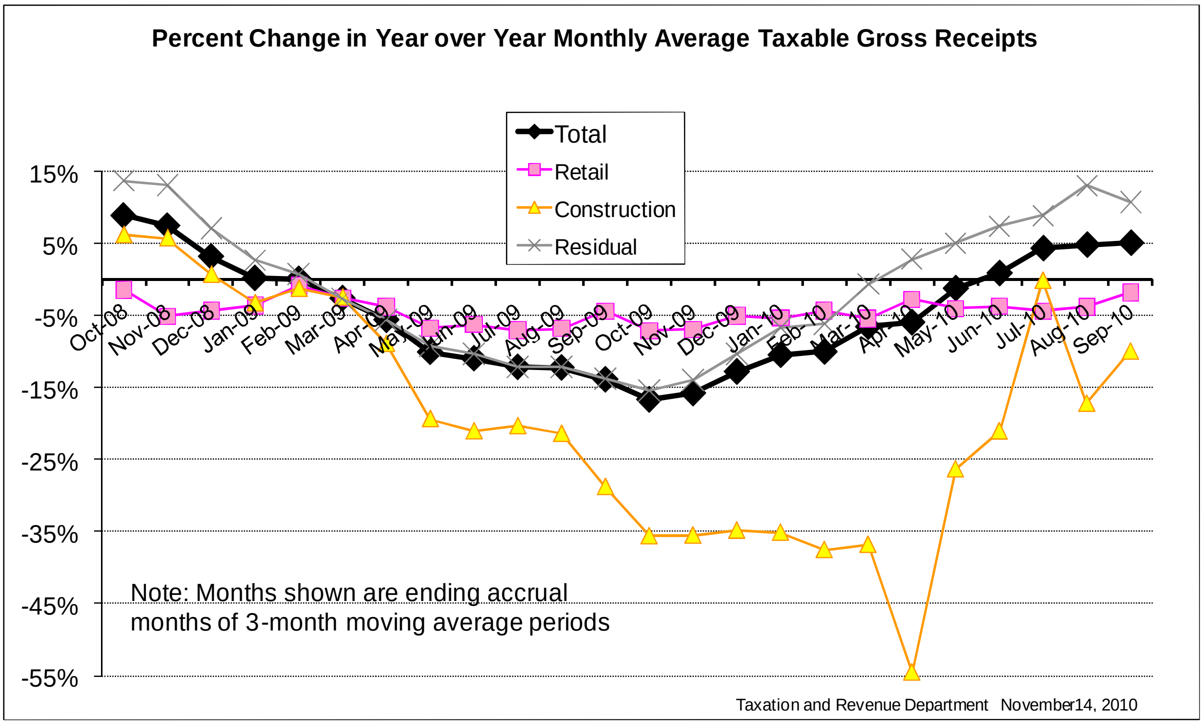
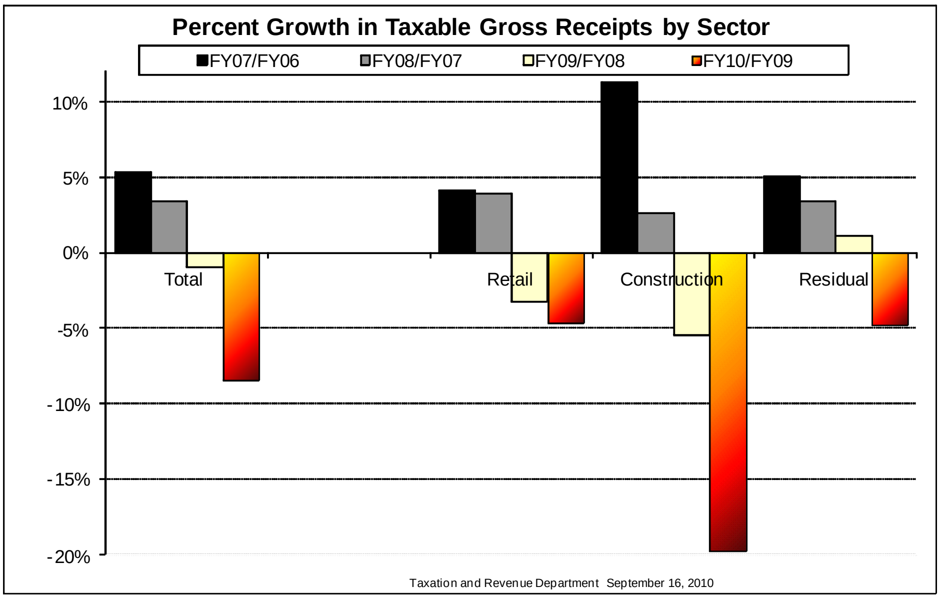


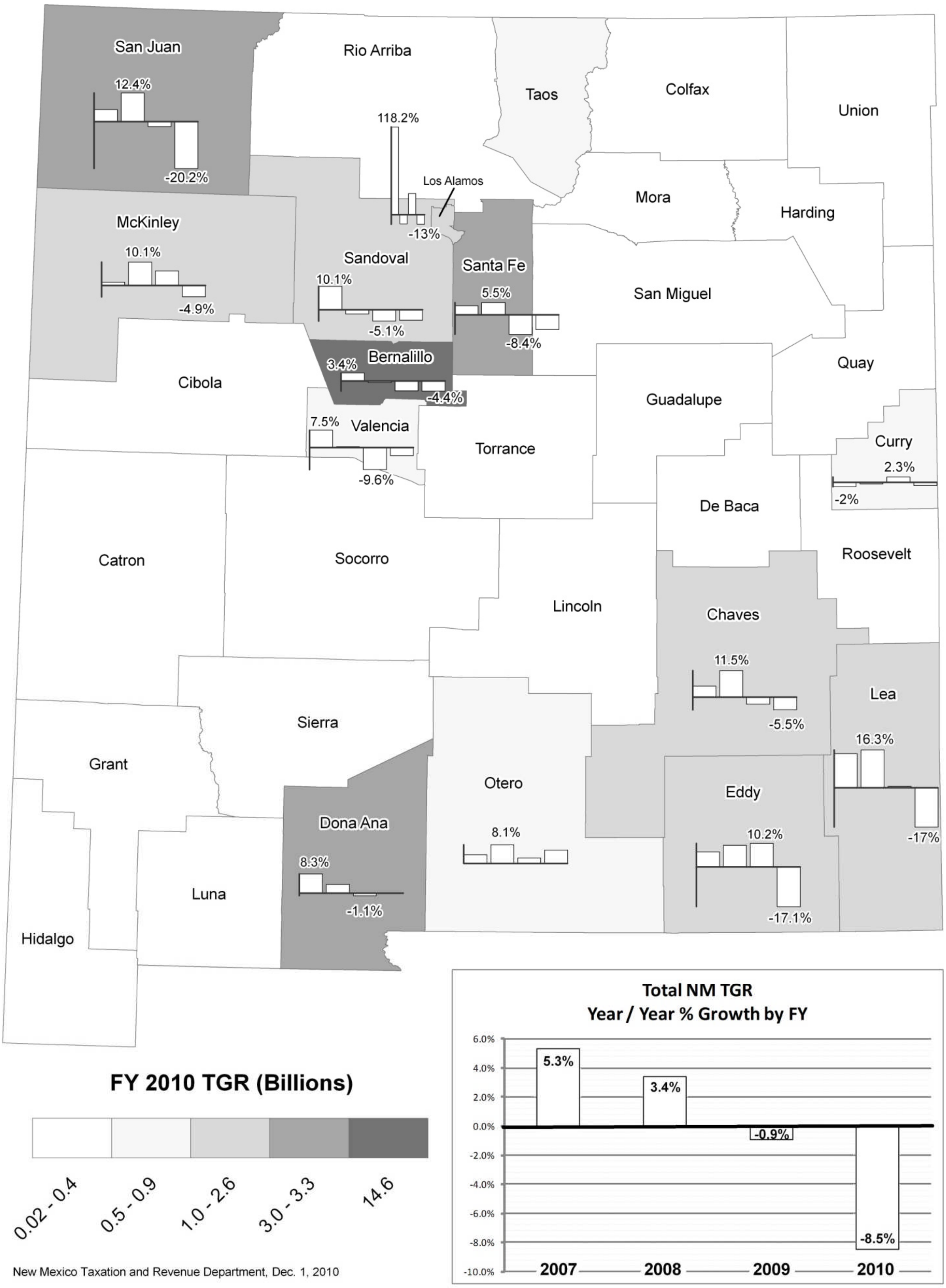
Figure 2.3 illustrates the huge negative effect of a drop in construction activity, which was one of the biggest drivers of GRT growth in FY07. In FY08 construction activity slowed but in FY09 construction became a significant drag on the taxable sales, helping lower GRT revenues year-over-year for the first time in decades. In FY10 construction fell by over 30 percent year-over-year, an unprecedented drop—a reflection of the magnitude of the national recession. The contraction of the construction sector is changing the composition of the gross receipts tax revenue base. Revenue from the construction sector made up almost one-sixth of total gross receipts in the past but in recent years, it has been contributing as little as one-twelfth of General Fund revenues. Gross receipts tax revenue growth is expected to return albeit slowly, during FY11. The base level is expected to grow by 3.8 percent and will be augmented by the recently enacted 1/8th percent rate increase. Overall revenue growth is therefore expected to grow by 6.5 percent. More robust growth is expected to return in FY12 and beyond, at approximately 5 percent. Even with the recently passed tax increase, gross receipts tax revenue is not expected to surpass its FY08 levels until FY13.

Figure 2.3



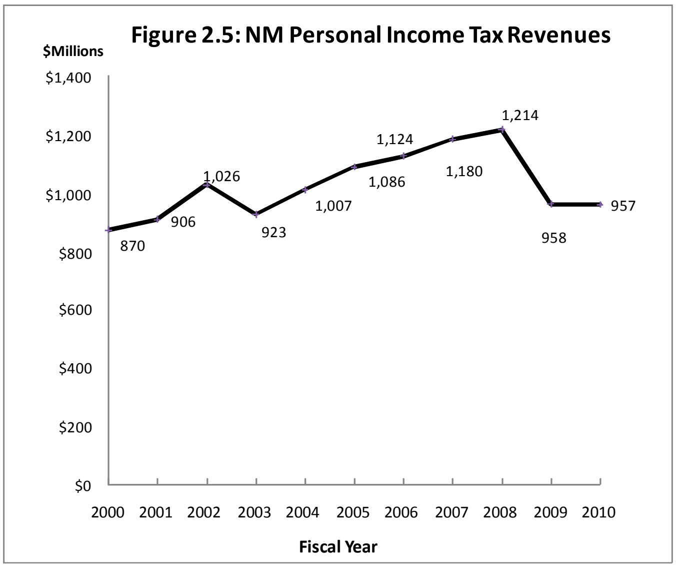
The map in Figure 2.4 shows the considerable historic variance in taxable gross receipts growth patterns between the major GRT producing counties in New Mexico over the last four years. The oil and natural gas producing counties experienced dramatic increases in FY08 coinciding with the spike in oil and natural gas prices. These counties had taxable gross receipts (TGR) growth in FY08 in the double digits. However, after oil and gas prices crashed and struggled to stay at even half of their peak levels, TGR in these counties also came crashing back down. In FY10 San Juan, Eddy, and Lea counties endured around a 20 percent drop in TGR. Central New Mexico saw growth crest earlier, in FY07, and also experienced their largest declines a year earlier in FY09; this was more in line with patterns seen in the national economy. In the south counties like Dona Ana and Otero avoided any massive declines. Federal government actions and spending are major drivers in a couple other New Mexico counties. The fortunes of Curry County and Cannon Air Force Base closely linked, but not as intimately as those of Los Alamos County and Los Alamos National Laboratory. Los Alamos County enjoyed a new level of revenues beginning in FY07 when lab management was handed over from the non-profit University of California to the taxable for-profit Los Alamos National Security, LLC.

Figure 2.4


San Juan
12.4%
-20.2%
Rio Arriba
118.2%
Los Alamos
-13%
Taos
Colfax
Union
Mora
Harding
McKinley
10.1%
-4.9%
Sandoval
10.1%
-5.1%
Santa Fe
5.5%
-8.4%
San Miguel
Bernalillo
3.4%
-4.4%
Cibola
Quay
Guadalupe
Valencia
7.5%
-9.6%
Torrance
Curry
2.3%
-2%
De Baca
Catron
Socorro
Roosevelt
Lincoln
Chaves
11.5%
-5.5%
Lea
16.3%
-17%
Sierra
Grant
Otero
8.1%
Eddy
10.2%
-17.1%
Dona Ana
8.3%
-1.1%
Luna
Hidalgo
FY 2010 TGR (Billions)
0.02 - 0.4
0.5 - 0.9
1.0 - 2.6
3.0 - 3.3
14.6
New Mexico Taxation and Revenue Department, Dec. 1, 2010
Total NM TGR
Year / Year % Growth by FY
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
-8.0%
-10.0%
5.3%
3.4%
-0.9%
-8.5%
2007
2008
2009
2010

Personal Income Taxes

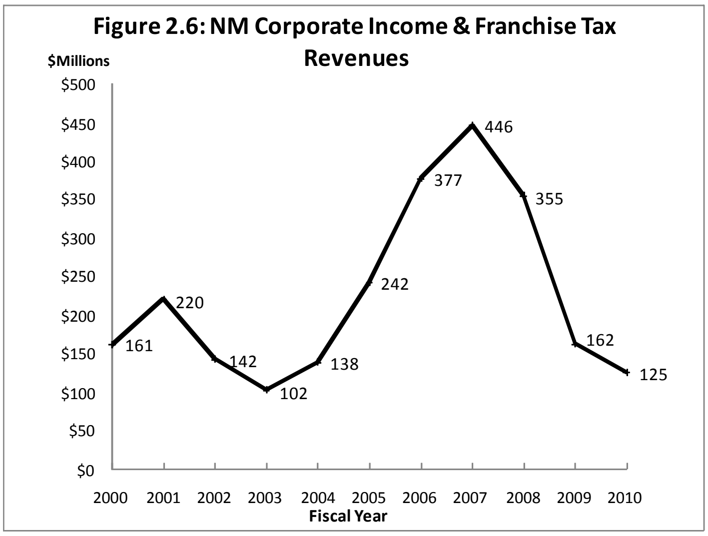
Personal income taxes comprise approximately 20 percent of General Fund recurring revenues. The recession has negatively affected personal income tax revenues in a variety of ways, including the slowing of personal income growth, reduced capital gains and higher unemployment levels. FY10 revenues are now expected to be only $956.6 million, significantly down from the October estimate.

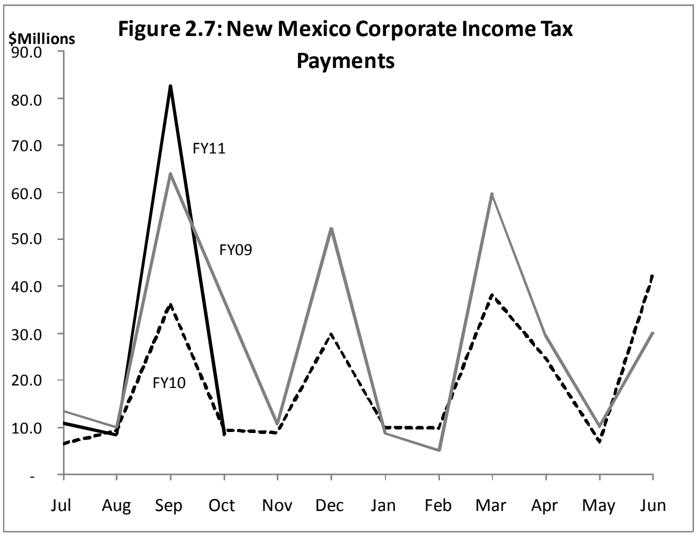


Based on the current economic climate and the cash flows, the personal income tax revenues are now expected to be $1,055, $1,095, $1,135, $1,180 and $1,225 million for the fiscal years 2011, 2012, 2013, 2014 and 2015 respectively, slightly lower than the October 2010 forecast.

Corporate Income Taxes

The current forecast makes no changes to the corporate income tax estimates developed in October. The December forecast therefore anticipates an increase in corporate income tax revenues from the $125.1 million FY10 figure to $220.0 million in FY11 – a 76 percent increase, followed by an 18 percent increase in FY12 to $260 million, a 15 percent increase in FY13 to $300



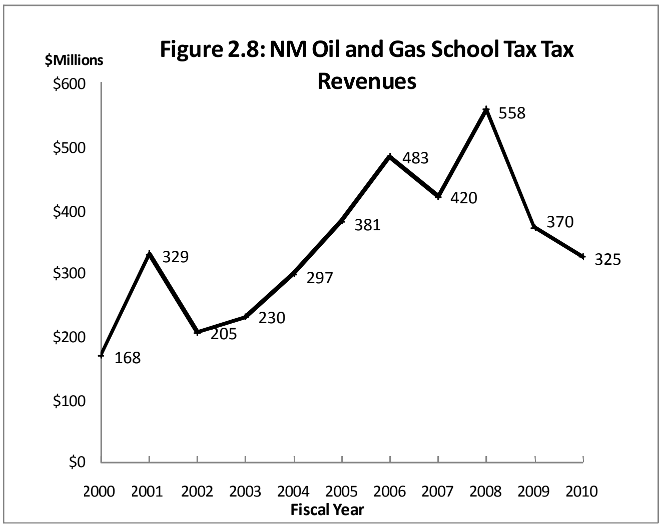


million, a 13 percent increase in FY14 and a 3 percent increase in FY15 when it is expected to total approximately $350 million.

The corporate income tax forecast is fairly robust for a number of reasons, including recent increases in federal corporate income tax revenues and US corporate profits. As indicated in the payments chart above, September payments in FY11 totaling over $82 million suggest the FY11 total is likely to be strong. However, after reviewing extraordinarily large payments made by several taxpayers in September that totaled between $1 million and $30 million, analysts concluded that a substantial number of the extraordinary payments – as much as half – are not likely to be recurring.

Selective Excises Taxes

Selective excise taxes are expected to generate greater revenue in FY11 than in FY10. In general, revenues are expected to rise 16.4 percent to $434.1 million in FY11 from $372.9 million in FY10. The jump is primarily due to increased revenues generated by: the tobacco taxes ($81.0 million in FY11 compared to $45.7 million in FY10), insurance taxes ($137.3 million in FY11 compared to $130.3 million in FY10); the fire protection reversion fund ($18.3 million in FY11 compared to $5.0 in FY10); and the motor vehicle excise tax ($98.3 million in FY11 compared to $92.3 million in FY10). Tobacco revenues are higher due to the July 2010 tax rate increase of $0.75 per 20-cigarette pack. Insurance tax revenues increased largely due to stronger underlying growth in health insurance premiums. Revenues from the fire protection reversion fund are higher due to a one-time reduction in the FY10 distribution. Additionally, motor vehicle excise tax revenues seem to be strengthening with the steadying of the economy.



FY12 is expected to be only slightly stronger than FY11 for selective excise taxes. Revenues are expected to rise only 2.8 percent to $446.2 million in FY12 from $434.1 million in FY11. Much of this growth is again expected to be the result of stronger motor vehicle sales (up 9.3 percent year-over-year in FY12) and higher revenues from insurance taxes (up 3.6 percent year-over-year in FY12).

Oil and Natural Tax Gas Revenues

Estimating Procedures

The consensus estimating group forecasts Oil and natural gas tax revenue estimates by 1) forecasting oil and natural gas prices and volumes; 2) multiplying the volume and value estimates to generate estimates of gross values; 3) making adjustments for various deductions to generate estimates of net taxable values; and 4) multiplying the net taxable value estimates by appropriate tax rates to produce estimates for various severance-based taxes – the oil and gas school, conservation and natural gas processors tax. Assumptions on which the mineral extraction tax estimates were based for purposes of the current estimate are shown in the US and New Mexico economic indicators table above. As shown in the table, estimators revised the December volume and value estimates by minor amounts for purposes of the December forecast. The FY11 oil price estimate, for example, was changed from $76.50 per barrel to $76.87 – less than 0.5 percent. The December FY12 through FY15 changes to oil price projections averaged less than 1 percent of the October price estimates. Similar minor adjustments were made to oil and sales gas volume projections, as well as natural gas price projections.

Trends in Prices and Volumes

Natural gas volumes fell by 7.5 percent in FY10 and are estimated to trend downward at a rate of roughly 3 percent per year after FY11. New Mexico gas rig counts are down by more than 60 percent since the November 2008 high of 32 to a monthly average of 12 in November 2010. By comparison, national rig counts have fallen by only 35 percent during the same period, which indicates a decrease in New Mexico's share of the national market. On a positive note, the volume of natural gas liquids being produced in the state has been increasing, and, because liquids are earning a significant premium relative to dry gas, these increases make an out-sized contribution to taxable values.

Natural gas prices show modest growth. Spot prices for dry gas haven't been above $4.00 per mcf since September, but futures prices for the remainder of the year are above the $4.00 level. Premiums paid for liquid gas products continue to pull ONGARD average gas values well above dry gas prices. However, large inventories and continuing supply increases in the national market will prevent prices from rising to the levels seen in 2008 when the annual average was $8.43.

Oil volumes are projected to increase in FY11, a continuation of recent trends. Unlike the October forecast which predicted continuing volume growth in future years, the current outlook is for production to decline at an average annual rate of about 1 percent. Although further increases are possible, it is too early to tell if the recent trend will continue indefinitely. Oil prices are projected to rise, though not as quickly as forecast in October. The NYMEX futures market, which is a key indicator of near-term price, has pulled long-term price downwards in recent weeks. The latest round of quantitative easing – which was expected to increase oil prices because of its negative impacts on the value of the dollar -- hasn't resulted in upward pressure on oil prices as anticipated. A positive risk – but one fraught with uncertainty and volatility – is the potential for commodity price inflation when the economy finally pulls out of the recession. The Federal Reserve has injected so much liquidity into the U.S. economy that it will need a masterful exit strategy to reduce that liquidity to prevent inflation once growth improves.

Risks to the Forecast

Negative

- As indicated in previous testimony, there is considerable risk of a "double-dip" – national and global economic recovery. A European recession is a high probability and would likely be caused by another credit crisis.

- Inability of Congress and President Obama to extend some portion of the Bush era tax cuts may slow the current economic recovery.

- International currency exchange rate realignments that are likely to occur in the near future would probably enhance prospects for U.S. economic recovery but they also carry additional risk from increased protectionism.

- The large amount of recent fiscal stimulus is consistent with the extraordinarily severe downturn and reduced effectiveness of monetary policy as interest rates approach zero. As a result, effectiveness of monetary policy may be limited in the upcoming months.

Positive

- The Conference Board Consumer Confidence Index improved in October and in November. The Index now stands at 54.1 (1985=100), up from 49.9 in October. The Present Situation Index increased to 24.0 from 23.5. The Expectations Index rose to 74.2 from 67.5 last month.[4]

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[4] The present situation or current situation index measures overall consumer sentiments toward the present economic situation and is used to derive (about 40% of) the consumer confidence index. It is based on a survey of 5,000 households on questions regarding current business and employment conditions. The expectations index measures overall consumer sentiments

- "Consumer confidence is now at its highest level in five months, a welcome sign as we enter the holiday season. Consumers' assessment of the current state of the economy and job market, while only slightly better than last month, suggests the economy is still expanding, albeit slowly. Expectations, the main driver of this month's increase in confidence, are now at the highest level since May (Exp. Index, 84.6). Hopefully, the improvement in consumers' mood will continue in the months ahead." [5]

- Recent initiatives announced by President Obama to reduce federal deficit may also improve consumer confidence, consumer spending and investment.

- Recent announcements of likely spending increases at the national labs may also improve the state's economic conditions.

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toward the short-term (6-month) future economic situation, and is used to derive (about 60% of) the consumer confidence index. It is also based on a 5,000 household survey.

[5] The Conference Board "The Conference Board Consumer Confidence Index Increases" 30 Nov. 2010 http://www.conference-board.org/data/consumerconfidence.cfm