

Consensus General Fund Revenue Estimate

New Mexico Department of Finance and Administration
 December 3, 2012
 Presented to
 the Legislative Finance Committee

SUMMARY:

- Table 1 below summarizes the forecast revisions to total recurring revenue. Compared with the August outlook:
 - FY12 total recurring revenue has been revised up by \$56 million. Oil and gas withholding and reversions were the largest contributors to the additional revenue.
 - FY12 year-end reserves were 14 percent of recurring appropriations.
 - FY13 total recurring revenue has been revised up by \$20 million. Gross receipts taxes, personal income taxes and reversions were revised up, while the corporate income tax forecast was revised down.
 - FY14 total recurring revenue has been revised up by \$10 million. The higher gross receipts tax base is the main reason for this upward revision.
- After these revisions, total recurring revenue growth was 7.3 percent in FY12, but falls to minus 1.6 percent in FY13 and grows by 3.9 percent in FY14.
- FY14 “new money” -- FY14 recurring revenue less FY13 recurring appropriations -- is \$283 million, available for spending and tax reform.
- Senior severance bond capacity will be \$222 million after allowing \$44 million for authorized but unissued bonds.

Table 1

December 2012 Consensus Forecast: Total Recurring Revenue

(Dollar amounts in millions)

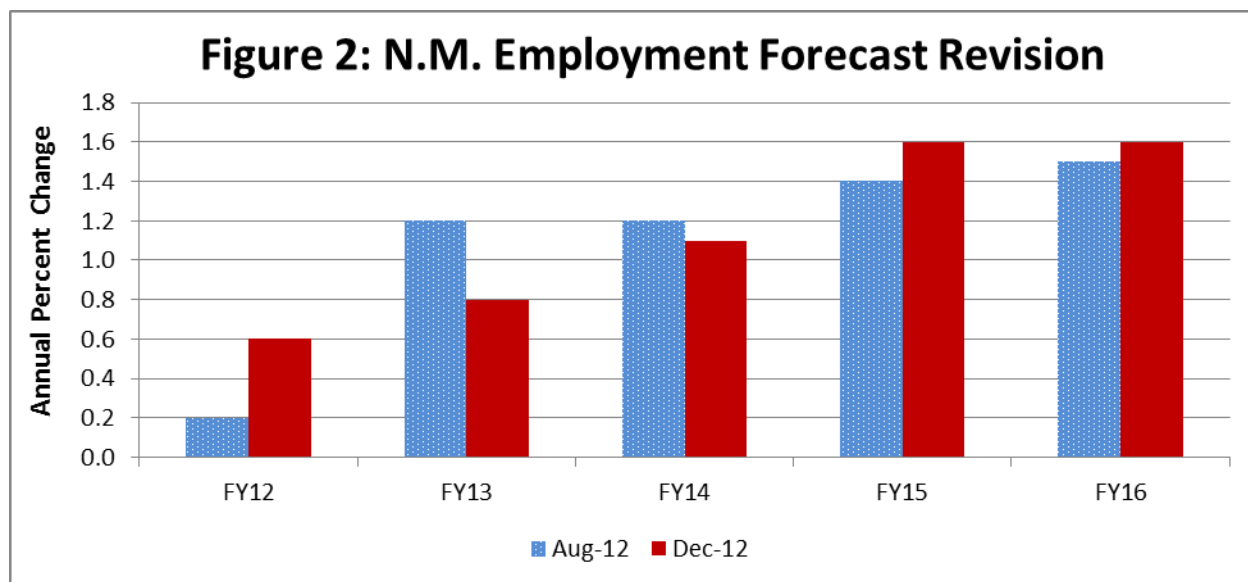
	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
December 2011 Estimate Adjusted for Legislation	\$5,529	\$5,669	\$5,802
August 2012 forecast revisions	\$217	\$18	\$120
<u>December 2012 forecast revisions</u>	<u>\$56</u>	<u>\$20</u>	<u>\$10</u>
December 2012 Consensus Estimate	\$5,802	\$5,707	\$5,932
% change versus prior year	7.3%	-1.6%	3.9%

ECONOMIC FUNDAMENTALS:

Inflation-adjusted U.S. economic output (GDP) grew by 2.0 percent during FY12, and growth is expected to remain around 1.9 percent in FY13. Although growth ticked up to 2.7 percent in the third quarter, key sectors like consumer spending remain weak. Businesses have already begun scaling back investment, perhaps in anticipation of tax increase and spending cuts embodied in the “fiscal cliff.” If the cliff is not addressed, GDP growth could fall by as much as 3.5 percent, effectively ending the economic recovery. Moody’s Analytics is forecasting that a compromise will be reached that includes some tax increases and spending cuts, constraining GDP growth by 1.5 percentage points in 2013. This forecast is reflected in the 1.9 percent growth forecast. Moody’s expects growth to improve in FY14 and beyond due to resolution of the fiscal cliff, increases in housing construction, and faster job growth.

U.S. inflation is expected to remain subdued. Although this enables the Federal Reserve to pursue monetary expansion to support growth, it also means the state will see subdued growth in revenues like the Gross Receipts Tax. Housing prices have begun to recover and new construction is expected to contribute a significant portion of GDP growth over the next few years. In New Mexico, the number of housing building permits was up 19 percent in the first 10 months of 2012 compared with 2011. Although housing prices are still falling nationwide, record-low mortgage interest rates and pent-up demand for new homes are expected to drive a strong housing recovery over the next several years.

Recent reports on New Mexico’s labor market have provided conflicting signals. Monthly employer surveys indicate job losses, but New Mexico’s unemployment rate is significantly lower than the national average. The low unemployment rate in part reflects discouraged workers leaving the job market. This trend has begun to reverse itself, which may signal improved job numbers in the future. The government sector continues to be a drag on growth, but weakness is also evident in business and professional services, perhaps an indication that tighter budgets at the national labs are impacting their contractors.



Source: UNM BBER, Consensus Revenue Group

ENERGY MARKETS: (Appendix 3)

New Mexico crude oil prices averaged \$89.64 per barrel (bbl) in FY12, about \$5.00 per bbl higher than FY11. The consensus group expects New Mexico oil prices to average \$85.00 in FY13 and \$87.25 in FY14. These prices are slightly lower than the August outlook. Slowing global demand growth due to a weaker global economy and faster supply growth due to hydraulic fracking are putting downward pressure on oil prices.

Natural gas prices in New Mexico averaged \$5.00 per thousand cubic feet (mcf) in FY12, about \$0.50 per mcf below FY11. These average prices include close to \$2.00 per mcf for the value of natural gas liquids. The “liquids premium” fell closer to \$1.50 per mcf in the last few months as increased supplies put downward pressure on prices. The consensus forecast includes New Mexico natural gas prices averaging \$4.50 in FY13 and \$5.00 in FY14. These prices are decreased from the August forecast by \$0.40 in FY13 and by \$0.50 in FY14. The consensus group has revised New Mexico gas prices downward in response to ongoing oversupply at the national level, weak economic demand, and forecasts of mild winter temperatures.

Crude Oil and Natural Gas Outlook	FY12	FY13	FY14	FY15	FY16	FY17
NM Oil Price (\$ per barrel)	\$89.64	\$85.00	\$84.75	\$83.50	\$82.50	\$83.00
NM Taxable Oil Volumes (million barrels)	79.7	84.1	88.4	92.4	96.1	97.6
NM Gas Price (\$ per thousand cubic feet)	\$5.00	\$4.50	\$5.00	\$5.40	\$5.60	\$5.50
NM Taxable Gas Volumes (billion cubic feet)	1,229	1,185	1,151	1,121	1,090	1,048

Source: Consensus Revenue Estimating Group.

Crude oil production in New Mexico increased by 16 percent in FY12, reaching 79.7 million barrels. The consensus group expects production to increase gradually over the next few years. Natural gas production fell again in FY12, but at a slower rate than in the recent past. The FY12 decline is now estimated at about 1 percent. Given the unfavorable financial outlook for dry gas, the consensus group is expecting total production to decline by 3.5 percent in FY13 and about 3 percent in FY14. As show in Appendix 3, natural gas rig counts have fallen sharply both nationally and in New Mexico, while growth in oil rig counts appears to have plateaued.

DECEMBER FORECAST REVISIONS BY REVENUE: (Appendix 1)

Table 2

December 2012 Revisions to August Estimate by Major Revenues

(Dollar amounts in millions)

	FY12	FY13	FY14
General Sales	(\$7)	\$16	\$32
Selective Sales	(\$7)	\$3	\$10
Income Taxes	\$29	(\$8)	(\$1)
Oil and Gas Revenues	\$12	(\$4)	(\$25)
Other	\$29	\$13	(\$5)
Total Revenue	\$56	\$20	\$11

FY12 gross receipts tax (GRT) collections grew by 5.8 percent compared to FY11. However, weaker GDP and employment growth in FY13 are expected to subdue GRT revenue growth. In the first quarter of FY13, taxable gross receipts fell 1.2 percent compared to the same period last year. As shown in Appendix 4, the largest decrease was in the professional and business services sector, which continues

to struggle towards economic recovery. Growth in the retail sector was also subdued at 1.6 percent; however, the construction sector is beginning to show signs of life, growing 2.5 percent year over year.

The December forecast reflects lower expected claims for High Wage Jobs Tax Credit compared with the August estimate in response to a review of recent credit activity by the Taxation and Revenue Department. About \$25 million in HWJTC claims are expected to be paid out in FY14. This revision contributed about \$30 million to forecast GRT revenue in FY13 and FY14 compared with the August forecast.

FY12 personal income tax revenue grew by 8.4% from FY11, largely due to increased oil and gas withholding. Excluding the growth in oil and gas withholding payments, personal income tax revenue grew by about 2.5% in FY12. The revenue forecast for FY13 and beyond was increased slightly to reflect the higher revenue base, but lower-than-normal growth is forecast due to cautionary estimates for oil and gas withholding.

Corporate income tax (CIT) revenue grew by 22 percent in FY12. Forecast CIT was reduced significantly in FY13 and FY14 due to reduced forecasts of corporate profits and federal corporate tax receipts. FY12 film credits fell to \$10 million, in part a result of the rush to file claims at the end of FY11. In FY13 and thereafter film credits are expected to reach the \$50 million cap.

Mineral production taxes, bonuses and royalties increased by 17 percent in FY12. The bulk of the increase was larger than expected federal royalties and state land bonuses resulting from the recent increase in oil prices and volumes. Cautionary oil and natural gas price forecasts are expected to decrease net revenue by \$4 million in FY13 and \$25 million in FY14.

As in the August forecast, the forecast for insurance premiums tax revenue includes added revenue due to implementation of the Affordable Care Act (ACA), including the impact of the health insurance exchange, as well as an expected increase in Medicaid enrollees by those currently eligible but not enrolled. The consensus group assumes the increase in premiums revenue will be gradual, due to

limited providers and administrative constraints as well as uncertainty about the cost of policies to be offered by the insurance exchange. This forecast may err on the cautious side, but there is still much uncertainty regarding the implementation of the ACA and its impact on general fund revenue.

BOND CAPACITY UPDATE: (Appendix 2)

After subtracting \$44 million of authorized-but-unissued bonds, and assuming a level issuance policy, \$222 million of senior severance tax bond capacity is forecast for new statewide capital projects authorized during the 2013 legislative session. \$175 million is forecast in Fiscal Year 2013 for public school facility projects. Earmarked appropriations for Fiscal Year 2013 total \$33 million for water trust board projects, and \$17 million each for Colonias and tribal infrastructure projects.

APPENDIX 1

**General Fund Revenue Estimate
December 2012**

	FY12				FY13				FY14			
	Aug 2012 Est.	Final Unaudited	Change from Prior	% Change from FY11	Aug 2012 Est.	Dec 2012 Est.	Change from Prior	% Change from FY12	Aug 2012 Est.	Dec 2012 Est.	Change from Prior	% Change from FY13
Gross Receipts Tax	1,935.0	1,928.5	(6.5)	5.8%	1,967.0	1,981.3	14.3	2.7%	2,012.0	2,042.6	30.6	3.1%
Compensating Tax	62.0	62.1	0.1	-10.2%	65.0	66.5	1.5	7.1%	61.5	62.9	1.4	-5.4%
TOTAL GENERAL SALES	1,997.0	1,990.5	(6.5)	5.2%	2,032.0	2,047.8	15.8	2.9%	2,073.5	2,105.5	32.0	2.8%
Tobacco Taxes	85.2	85.4	0.2	-3.2%	84.3	84.3	-	-1.2%	83.2	83.2	-	-1.3%
Liquor Excise	26.0	26.1	0.1	1.7%	26.5	26.5	-	1.4%	27.0	27.0	-	1.9%
Insurance Taxes	130.0	114.1	(15.9)	-14.0%	125.0	122.5	(2.5)	7.4%	135.0	137.4	2.4	12.2%
Fire Protection Fund Reversion	11.9	18.8	6.9	6.9%	10.6	18.3	7.7	-2.6%	9.5	17.7	8.2	-3.3%
Motor Vehicle Excise	114.7	114.7	0.0	10.6%	123.0	123.0	-	7.2%	126.0	126.0	-	2.4%
Gaming Excise	65.5	65.5	(0.0)	-0.4%	64.8	64.8	-	-1.1%	65.8	65.8	-	1.5%
Leased Vehicle Surcharge	5.3	5.4	0.1	7.3%	5.3	5.4	0.1	1.0%	5.4	5.5	0.1	1.0%
Other	6.0	7.5	1.5	213.1%	-	(2.5)	(2.5)	-133.1%	3.2	2.4	(0.8)	-196.5%
TOTAL SELECTIVE SALES	444.6	437.5	(7.1)	-0.8%	439.5	442.3	2.8	1.1%	455.1	465.0	9.9	5.1%
Personal Income Tax	1,120.0	1,150.5	30.5	8.4%	1,155.0	1,166.6	11.6	1.4%	1,205.0	1,217.3	12.3	4.3%
Corporate Income Tax	283.0	281.0	(2.0)	22.3%	300.0	280.0	(20.0)	-0.4%	355.0	342.0	(13.0)	22.1%
TOTAL INCOME TAXES	1,403.0	1,431.5	28.5	10.9%	1,455.0	1,446.6	(8.4)	1.1%	1,560.0	1,559.3	(0.7)	7.8%
Oil and Gas School Tax	390.7	399.6	8.9	6.2%	371.6	366.0	(5.6)	-8.4%	398.0	388.0	(10.0)	6.0%
Oil Conservation Tax	20.4	21.5	1.1	10.6%	19.6	19.5	(0.1)	-9.1%	20.9	20.6	(0.3)	5.6%
Resources Excise Tax	10.6	12.0	1.4	19.0%	10.0	10.0	-	-16.8%	10.0	10.0	-	0.0%
Natural Gas Processors Tax	23.0	23.3	0.3	28.3%	23.9	23.9	-	2.4%	19.6	17.5	(2.1)	-26.8%
TOTAL SEVERANCE TAXES	444.7	456.4	11.7	7.7%	425.1	419.4	(5.7)	-8.1%	448.5	436.1	(12.4)	4.0%
LICENSE FEES	50.1	49.6	(0.5)	-0.4%	50.4	50.4	-	1.7%	51.6	51.6	-	2.2%
LGPF Interest	459.8	461.7	1.9	3.5%	437.7	438.8	1.1	-5.0%	437.7	443.8	6.1	1.1%
STO Interest	14.1	17.4	3.3	-1.0%	16.0	16.0	-	-8.1%	29.2	19.0	(10.2)	18.6%
STPF Interest	183.4	183.4	0.0	-0.6%	176.2	176.2	-	-3.9%	168.5	168.5	-	-4.4%
TOTAL INTEREST	657.3	662.6	5.3	2.2%	629.9	631.0	1.1	-4.8%	635.4	631.3	(4.1)	0.0%
Federal Mineral Leasing	502.4	502.6	0.2	22.0%	440.0	440.0	-	-12.5%	480.0	465.0	(15.0)	5.7%
State Land Office	92.5	92.5	0.0	41.0%	58.8	60.5	1.7	-34.6%	61.3	63.2	2.0	4.5%
TOTAL RENTS & ROYALTIES	594.9	595.1	0.2	24.7%	498.8	500.5	1.7	-15.9%	541.3	528.2	(13.0)	5.5%
TRIBAL REVENUE SHARING	68.0	68.2	0.2	3.5%	72.0	72.0	-	5.6%	73.0	73.0	-	1.4%
MISCELLANEOUS RECEIPTS	46.7	45.1	(1.6)	-13.6%	44.7	46.2	1.5	2.4%	43.7	42.7	(1.0)	-7.6%
REVERSIONS	40.0	65.9	25.9	-2.1%	40.0	51.0	11.0	-22.6%	40.0	40.0	-	-21.6%
TOTAL RECURRING	5,746.3	5,802.4	56.1	7.3%	5,687.5	5,707.3	19.9	-1.6%	5,922.1	5,932.7	10.6	3.9%
TOTAL NON-RECURRING	18.3	14.7	(3.6)	-76.5%	(3.3)	(3.3)	-	-122.5%	(0.9)	(0.9)	-	-72.7%
GRAND TOTAL	5,764.6	5,817.1	52.4	6.3%	5,684.2	5,704.0	19.9	-1.9%	5,921.2	5,931.8	10.6	4.0%

APPENDIX 1

General Fund Revenue Estimate
December 2012

	FY15				FY16				FY17			
	Aug 2012 Est.	Dec 2012 Est.	Change from Prior	% Change from FY14	Aug 2012 Est.	Dec 2012 Est.	Change from Prior	% Change from FY15	Aug 2012 Est.	Dec 2012 Est.	Change from Prior	% Change from FY15
Gross Receipts Tax	2,070.0	2,124.3	54.3	4.0%	2,149.0	2,202.3	53.3	3.7%	2,236.0	2,285.7	49.7	3.8%
Compensating Tax	64.0	64.8	0.8	3.0%	66.5	66.5	-	2.6%	68.0	67.9	(0.1)	2.1%
TOTAL GENERAL SALES	2,134.0	2,189.1	55.1	4.0%	2,215.5	2,268.8	53.3	3.6%	2,304.0	2,353.6	49.6	3.7%
Tobacco Taxes	82.2	82.2	-	-1.2%	81.2	81.2	-	-1.2%	80.3	80.3	-	-1.1%
Liquor Excise	27.4	27.4	-	1.5%	27.9	27.9	-	1.8%	28.4	28.4	-	1.8%
Insurance Taxes	160.0	177.8	17.8	29.4%	170.0	223.5	53.5	25.7%	185.0	235.6	50.6	5.4%
Fire Protection Fund Reversion	8.9	17.0	8.1	-4.1%	8.3	15.5	7.2	-8.5%	7.7	13.8	6.1	-11.2%
Motor Vehicle Excise	131.0	131.0	-	4.0%	136.0	136.0	-	3.8%	141.0	141.0	-	3.7%
Gaming Excise	66.9	66.9	-	1.7%	68.1	68.1	-	1.8%	69.5	69.5	-	2.1%
Leased Vehicle Surcharge	5.4	5.5	0.1	1.0%	5.5	5.6	0.1	1.0%	5.5	5.6	0.1	1.0%
Other	3.3	2.4	(0.9)	0.0%	3.3	2.4	(0.9)	0.0%	3.3	2.4	(0.9)	0.0%
TOTAL SELECTIVE SALES	485.1	510.3	25.1	9.7%	500.3	560.3	60.0	9.8%	520.7	576.6	55.9	2.9%
Personal Income Tax	1,257.0	1,272.6	15.6	4.5%	1,310.0	1,326.8	16.8	4.3%	1,360.0	1,380.1	20.1	4.0%
Corporate Income Tax	385.0	383.0	(2.0)	12.0%	385.0	400.0	15.0	4.4%	385.0	410.0	25.0	2.5%
TOTAL INCOME TAXES	1,642.0	1,655.6	13.6	6.2%	1,695.0	1,726.8	31.8	4.3%	1,745.0	1,790.1	45.1	3.7%
Oil and Gas School Tax	409.2	404.0	(5.2)	4.1%	407.3	411.0	3.7	1.7%	400.0	406.0	6.0	-1.2%
Oil Conservation Tax	21.4	21.4	-	3.9%	21.3	21.7	0.4	1.4%	21.0	21.6	0.6	-0.5%
Resources Excise Tax	10.0	10.0	-	0.0%	10.0	10.0	-	0.0%	10.0	10.0	-	0.0%
Natural Gas Processors Tax	19.7	18.4	(1.3)	5.1%	21.1	19.6	(1.5)	6.5%	21.5	19.9	(1.6)	1.5%
TOTAL SEVERANCE TAXES	460.3	453.8	(6.5)	4.1%	459.7	462.3	2.6	1.9%	452.5	457.5	5.0	-1.0%
LICENSE FEES	51.9	51.9	-	0.6%	52.9	52.9	-	2.0%	53.8	53.8	-	1.7%
LGPF Interest	470.0	481.6	11.6	8.5%	498.0	515.5	17.5	7.0%	475.2	496.6	21.4	-3.7%
STO Interest	44.0	19.6	(24.5)	3.0%	75.6	29.4	(46.3)	50.0%	92.7	44.0	(48.6)	50.0%
STPF Interest	175.7	175.7	-	4.3%	180.8	180.8	-	2.9%	185.1	185.1	-	2.4%
TOTAL INTEREST	689.7	676.9	(12.8)	7.2%	754.4	725.6	(28.8)	7.2%	753.0	725.7	(27.2)	0.0%
Federal Mineral Leasing	495.0	480.0	(15.0)	3.2%	500.0	485.0	(15.0)	1.0%	485.0	475.0	(10.0)	-2.1%
State Land Office	62.3	64.9	2.6	2.6%	62.6	66.0	3.4	1.6%	61.7	65.5	3.8	-0.7%
TOTAL RENTS & ROYALTIES	557.3	544.9	(12.4)	3.2%	562.6	551.0	(11.6)	1.1%	546.7	540.5	(6.2)	-1.9%
TRIBAL REVENUE SHARING	76.0	76.0	-	4.1%	80.0	80.0	-	5.3%	84.0	84.0	-	5.0%
MISCELLANEOUS RECEIPTS	45.4	47.9	2.5	12.2%	47.0	56.0	9.1	16.9%	46.8	55.8	9.0	-0.4%
REVERSIONS	40.0	40.0	-	0.0%	40.0	40.0	-	0.0%	40.0	40.0	-	0.0%
TOTAL RECURRING	6,181.7	6,246.4	64.6	5.3%	6,407.3	6,523.6	116.3	4.4%	6,546.5	6,677.7	131.2	2.4%
TOTAL NON-RECURRING	-	-	-	-100.0%	-	-	-	-	-	-	-	-
GRAND TOTAL	6,181.7	6,246.4	64.6	5.3%	6,407.3	6,523.6	116.3	4.4%	6,546.5	6,677.7	131.2	2.4%

Appendix 2
December 2012 Bond Capacity Estimate

Sources and Uses of Funds
Bonding Capacity Available for Authorization
December 2012 Estimate

Sources of Funds (millions)	FY13	FY14	FY15	FY16	FY17	Five-Year
General Obligation Bonds	-	155.0	-	180.0	-	335.0
Severance Tax Bonds	220.8	220.8	220.8	220.8	220.8	1,104.0
Severance Tax Notes	112.0	91.8	85.2	71.6	58.0	418.5
Subtotal Senior STBs	332.8	312.6	306.0	292.4	278.8	1,522.5
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	174.9	180.7	191.9	198.9	200.7	947.1
Subtotal Supplemental STBs	174.9	180.7	191.9	198.9	200.7	947.1
Total Sources of Funds	\$507.7	\$648.3	\$497.9	\$671.2	\$479.4	\$2,804.5
Uses of Funds (millions)	FY13	FY14	FY15	FY16	FY17	Five-Year
Projects approved by referendum	-	155.0	-	180.0	-	335.0
New Statewide Capital Projects	222.4	250.1	244.8	233.9	223.0	1,174.1
Authorized but Unissued STB Projects*	43.9	-	-	-	-	43.9
10% Water Projects	33.3	31.3	30.6	29.2	27.9	152.2
5% Colonias Projects	16.6	15.6	15.3	14.6	13.9	76.1
5% Tribal Projects	16.6	15.6	15.3	14.6	13.9	76.1
Education Capital	174.9	180.7	191.9	198.9	200.7	947.1
Total Uses of Funds	\$507.7	\$648.3	\$497.9	\$671.2	\$479.4	\$2,804.5

*Includes projects authorized in Laws 2011 and 2012 that have not yet met requirements for project funding.

**Appendix 3
NM and US Rig Counts**

Figure 4

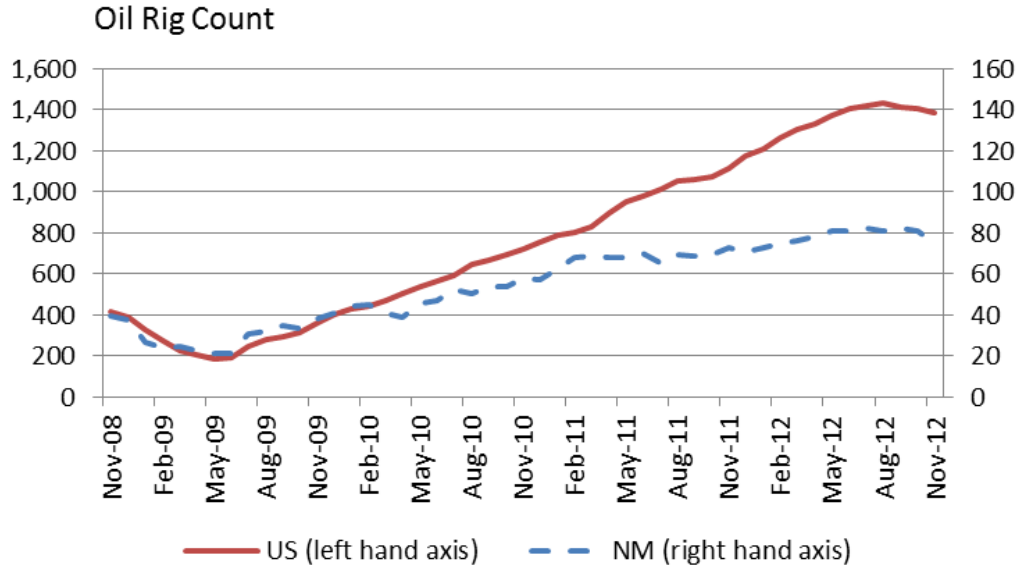
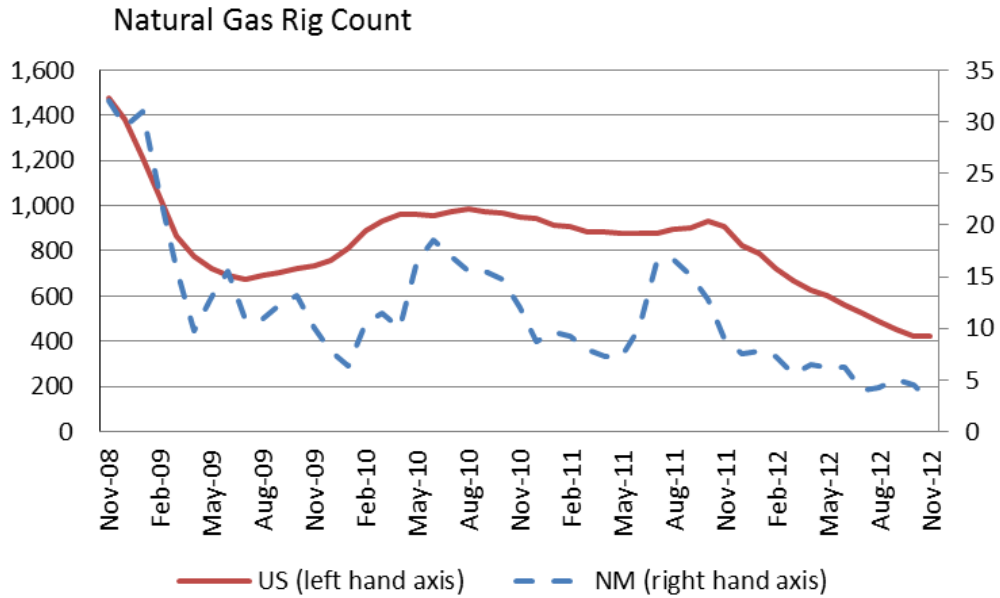


Figure 5



Appendix 3
New Mexico Taxable Gross Receipts

FY13 Taxable Gross Receipts by Sector	FY13 Q1 (\$ millions)	Year % Change
Agriculture, Forestry, Fishing and Hunting	\$ 14.2	-2.4%
Mining and Oil and Gas Extraction	\$ 948.0	16.2%
Utilities	\$ 595.8	0.0%
Construction	\$ 1,413.4	2.5%
Manufacturing	\$ 489.7	6.0%
Wholesale Trade	\$ 593.7	4.1%
Retail Trade	\$ 3,006.0	1.6%
Transportation and Warehousing	\$ 178.0	-49.3%
Information and Cultural Industries	\$ 584.5	-5.4%
Finance and Insurance	\$ 68.9	40.0%
Real Estate and Rental and Leasing	\$ 246.7	18.2%
Professional, Scientific and Technical Services	\$ 1,017.3	-15.6%
Management of Companies and Enterprises	\$ 9.4	4.7%
Admin and Support, Waste Mgt and Remed	\$ 588.3	-14.0%
Educational Services	\$ 49.9	-11.4%
Health Care and Social Assistance	\$ 532.1	-0.5%
Arts, Entertainment and Recreation	\$ 52.3	-7.9%
Accommodation and Food Services	\$ 898.8	1.4%
Other Services (except Public Admin)	\$ 1,217.0	2.7%
Public Administration	\$ 42.8	-42.8%
Unclassified Establishments	\$ 40.7	67.2%
 All Industries	 \$ 12,587.4	 -1.2%
 Excluding O&G	 \$ 11,639.43	 -2.4%