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OFFICE OF THE SECRETARY**

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Memorandum

To: Representative Henry Kiki Saavedra Chair, House Appropriations & Finance Committee
Senator John Arthur Smith, Chair Senate Finance Committee

From: Demesia Padilla, Secretary Designate Taxation and Revenue Department
Rick May, Secretary Designate Department of Finance and Administration

Subject: Mid-session consensus revenue estimate review

The consensus estimating group met last week and, after careful review of revenue tracking data and new economic information, decided not to revise the December 2010 recurring revenue forecast. However, due to strong cash deposits over the past two months the group has revised nonrecurring FY11 revenues \$36 million higher. The Administration's desire is to have this \$36 million added to reserves.

Salient new information considered by the group included:

- The national economy has regained momentum and the risks of a double dip recession continue to fade. Although the jobs outlook remains relatively bleak, GDP growth is now expected to be stronger than previously anticipated. Consumer and business confidence is slowly returning, but Housing still remains very weak.
- The updated outlook for New Mexico is mixed. Based on the latest forecast from the University of New Mexico's Bureau of Business and Economic research, overall personal income in New Mexico is expected to be stronger lifted up by robust strength in dividends, interest, and rent. The jobs outlook for New Mexico has actually slipped, with the return to growth taking longer to materialize.
- Energy is mixed. Oil prices have been up, though dropped in recent weeks. Natural gas has been week with dry gas spot prices dropping below \$4 per mcf; however, winter weather may not be over and New Mexico natural gas commands significant a premium over the dry gas price due to its liquids content.
- Extension of the Bush tax cuts was already assumed in the December forecast, but the 2% payroll tax holiday for calendar year 2011 and increased investment incentives for businesses pull the economy up further at least temporarily.

- Overall major recurring revenues have been tracking with forecast. Gross receipts and personal income tax revenues are tracking almost exactly as expected. Compensating tax revenue is tracking slightly weaker than expected in FY11 and this weakness is expected to continue into future years. Selective sales taxes including cigarette and liquor are up slightly. Corporate income tax revenues have been strong but remain highly uncertain due to an expected increase in film credit claims.

CC: Representative Patricia A. Lundstrom Vice Chair, House Appropriations & Committee
Senator Carlos R. Cisneros, Vice Chair, Senate Finance Committee
David Abbey, Director Legislative Finance Committee