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Thomas E. Clifford, Ph.D.  
Cabinet Secretary

**MEMORANDUM**

TO: Honorable Senator John Arthur Smith  
Honorable Representative Henry "Kiki" Saavedra  
FROM: Thomas E. Clifford, Cabinet Secretary, Department of Finance and  
Administration  
DATE: February 11, 2013  
SUBJECT: **General Fund Consensus Revenue Forecast**

This memo communicates the results of the latest review of the General Fund revenue forecast by the consensus revenue estimating group. The group is comprised of economists from the Legislative Finance Committee, Taxation and Revenue Department, Department of Transportation and Department of Finance and Administration.

After a careful review of information newly available since the December update, the consensus group has concluded that the forecast should not be revised. In reaching this conclusion, they considered the following factors, among others:

1. Forecasts of U.S. economic output and inflation have not changed significantly. The tentative resolution of the "fiscal cliff" and the potential sequestration of federal spending have not altered the expectation that the federal budget will be a drag on growth for the next year or more. Recent data on taxable gross receipts and employment in New Mexico suggest that the national labs have already begun the process of adjusting to lower spending levels. This trend was already incorporated into the December revenue forecast.
2. The expansion of Medicaid to cover low-income adults with incomes up to 138 percent of poverty is expected to increase the number of persons covered by Medicaid by up to 150,000 over the next several years. Almost all of these persons will be covered under managed care plans, and the state's reimbursement to insurance companies for this coverage will be subject to the Insurance Premiums Tax, which will increase General Fund revenue. In addition, new insurance requirements under the Affordable Care Act should reduce the population of persons needing to use the New Mexico Medical Insurance Pool (NMMIP). Reduced demand for the NMMIP will reduce the Premiums Tax credits claimed by insurers. This will also contribute to higher General Fund revenue.
3. Recent trends in energy markets are having a positive effect on state revenues. Natural gas prices have been generally consistent with December forecast levels for the current fiscal year. Crude oil prices have been several dollars per barrel higher over the last two months. In addition, crude oil production is increasing more quickly than forecast.

Taken together, these trends imply an increase in oil and gas-related revenue for the General Fund.

4. The Taxation and Revenue Department reports a sharp increase in claims for certain business credits over the last two months. In particular, claims for the High Wage Jobs Credit and the Advanced Energy Credit have been running well ahead of the amounts previously expected. In part this appears to be a reaction to public discussion of the need for legislation to tighten the applicability of the High Wage Jobs Credit. Thus, although there would likely be a sharp increase in credit claims paid in the current fiscal year under present law, the recurring impacts of the recent surge of claims would likely be smaller.
  
5. Recent trends in revenue accruals are consistent with the December revenue forecast. Table 1 attached presents a revenue tracking report prepared by economists at the Department of Finance and Administration. For most revenues, actual collections are available through November, the first five months of the fiscal year. For some other revenues, more recent information on collections is available. The report combines year-to-date collections with projected amounts for the remainder of the year based on the December 2012 forecast. Collections have so far been higher-than-estimated for some revenues and lower-than-expected for other revenues. Total recurring revenues have been very close to the forecast amount.

As always, the General Fund forecast is subject to uncertainty. However, the best information available indicates that the state should rely on the December forecast for purposes of preparing the FY14 budget.

We appreciate the cooperation of your staff as well as the other state agencies' in the preparation of these estimates.

Sincerely,



Thomas E. Clifford, PhD  
Secretary of Finance and Administration

cc: Keith Gardner, Chief of Staff, Office of the Governor  
David Abbey, Director, Legislative Finance Committee  
Demesia Padilla, Cabinet Secretary, Taxation and Revenue Department  
Tom Church, Acting Cabinet Secretary, Department of Transportation

Table 1  
General Fund Revenue Tracking Report

(millions \$)	Dec 2012 Forecast	FY13 Estimated Total (1)	Forecast Year-to-Date Variance	% Difference to Forecast
Gross Receipts Tax	1,981.3	1,966.4	-14.9	-0.8%
Compensating Tax	66.5	59.3	-7.2	-10.8%
Insurance Premiums Tax	122.5	114.4	-8.1	-6.6%
Motor Vehicle Excise Tax	123.0	122.2	-0.8	-0.7%
Other Selective Excise Taxes	196.8	195.2	-1.6	-0.8%
Personal Income Tax	1,166.6	1,170.3	3.7	0.3%
Corporate Income Tax	280.0	278.9	-1.1	-0.4%
Estate Tax	0.0	0.0	0.0	0.0%
School Tax	366.0	369.6	3.6	1.0%
Other Mineral Taxes	53.4	57.5	4.1	7.6%
License Fees	50.4	49.4	-1.0	-2.1%
LGPF	438.8	439.5	0.7	0.2%
STO earnings	16.0	17.2	1.2	7.5%
STPF	176.2	176.2	0.0	0.0%
FML	440.0	458.5	18.5	4.2%
SLO	60.5	56.9	-3.6	-5.9%
Tribal Revenue Sharing	72.0	71.3	-0.7	-0.9%
Miscellaneous Revenues	46.2	46.7	0.5	1.2%
Reversions	51.0	52.7	1.7	3.3%
Recurring Total	5,707.2	5,702.4	-4.9	-0.1%

(1) Annual Total = Year-to-date collection plus remainder-of-year expected revenue based on December 2012 revenue forecast. Year-to-date collections are available for most revenues through November. More recent information is available for some revenues.