

***Testimony by Richard E. May, Secretary***  
**Department of Finance and Administration**  
**Before the Legislative Finance Committee, July 14, 2011**  
**Socorro, New Mexico**

Mr. Chairman and Members of the Committee, it is always an honor and a privilege to appear before the LFC and talk about the many interesting aspects of state fiscal policy. The beginning of a new fiscal year, as well having new consensus revenue estimates, is the perfect opportunity to discuss short, medium, and long-term budget issues facing state government. Therefore, my remarks this afternoon will focus on three main topics --- 1) the need to exhibit continued fiscal restraint and caution in setting fiscal policy in both FY12 and FY13; 2) the persistent structural deficit within the state budget and the factors causing this imbalance between recurring revenues and expenditures; and 3) the results of a draft DFA study on the long-term trends of spending and taxation and how those trends are helpful for revenue forecasting and defining recurring versus non-recurring revenue.

**1.0 Short and Medium-Term Fiscal Policy**

Although the new revenue forecast looks encouraging in some ways, the Administration strongly believes that continued fiscal restraint and caution is still needed in both FY 12 and FY13. No one should look at the projected revenue numbers for FY11, FY12, and FY13, and think that the budgetary challenges the state has faced during FYs 2009 - 2012 have evaporated and that a spending spree should begin. For example, although the consensus revenue forecast indicates an additional \$110.1 million in revenues for FY11, the Committee should also be aware that more than \$20 million has already been spent from state reserves since January on various state emergencies, and with fire season continuing and the likely major flooding that could occur in the aftermath of the wildfires, millions of dollars in additional spending could be required in the first quarter of FY12. Some will argue that most of this emergency spending will be reimbursed by the federal government, and while that is true, it must also be pointed out that it may take 12 -18 months for that reimbursement to occur. Also, \$110.1 million is about 12 hours of total state spending.

Other fiscal pressures facing the state budget over the next two fiscal years are: 1) the federal debt ceiling/deficit reduction negotiations currently occurring in Washington, DC could result in over \$2.4 trillion in Federal budget saving over the next ten years, and those budget changes will likely have a significant impact on the state's ability to provide a whole range of services; 2) the continued growth of Medicaid spending and the future implementation of health care reform will place significant pressure on all aspects of the state budget; and 3) there are serious financial challenges facing the two main public pensions systems and to address unfunded liabilities will require millions of dollars of increased employer contributions.

In addition, adequate reserve balances are a principal concern for maintaining the state's credit rating and meeting future emergencies. The latest revenue forecast, if realized, will cause reserve balances to grow and may trigger certain legislation eliminating employees' additional contribution to the retirement funds passed into law in the 2011 Regular Session. Although an additional \$110.1 million has been added to revenue forecast, most of these additional funds may already be allocated for other purposes if these provisions in statute are triggered and if higher employer contributions to the pension programs are provided by the state.

Therefore, due to the budget challenges and uncertainties identified, the Administration strongly believes that any new revenues for FY 2011 should be added to the state's reserves and be available to address any financial needs resulting from this summer's fire season and related flooding. Adding the additional \$110 million in new FY11 revenues to reserves will increase reserves to about 9 percent, which is still below the Administration's goal of having reserves of at least 10 percent. Equally important, it is important to note that DFA will not know until the end of September how FY11 expenditures and revenues compare.

In regards to the higher than expected revenues for FY12 and FY13, once again, the Administration does not support increasing state spending at this time as the likelihood of potential federal budget savings being imposed on the state is reason enough to assume that higher than expected revenues will be needed to make-up the difference of federal budget decisions in order to maintain state services. For FY13, the Administration has already given budget instructions to most state departments and agencies stating that they should craft flat budget requests. This zero-growth of state expenditures should give added flexibility to setting fiscal policy once revenues are better understood prior to the 2012 legislative session, projections for additional Medicaid funding will be refined, and clarity will be provided concerning the impact of federal budget actions on the overall state budget.

## 2.0 Risks to the Forecast

Risks to the recurring revenue forecast include the current economic "soft patch" and the increasing prospect of a double dip recession and high unemployment. The administration is addressing high unemployment by limiting any tax increases, implementing regulatory reforms, and providing guidance to all state agencies to propose flat budgets in FY13. Another concern is that oil and gas price weakness could emerge with ongoing development of shale resources across the country. For the mid-term outlook, the consensus revenue forecast also projects recurring revenue growth at rates as high as 7.6% in FY12 and 7% in FY13 about 40% higher than the long term historical growth rate over the last thirty years. These rates of increase are similar to growth rates of FY05-FY08 before the economic collapse and should serve as cautionary signals for the future. Very high growth rates of recurring revenue do not persist according to DFA's draft assessment of our budgetary and revenue histories.

Another major risk to the forecast is that recording higher FY11 receipts as this estimate does also establishes a higher base year for projecting future growth. To meet the new revenue estimate, receipts for May and June need to be \$100 million per month (22%) higher than revenues collected per month during the first ten months of FY11. The CREG is optimistic that these revenues will appear but more than \$1.1 B of revenues in this forecast have not yet been received. If the CREG is overestimating FY11 recurring revenue, then all future years are similarly over forecast. Building up the base year for forecasting purposes inflates the forecast for all subsequent years. The new recurring revenue estimate shows 9.9% recurring revenue growth from FY10 to FY11. By the December forecast, well before the next regular legislative session, we will know whether these May and June revenues have materialized.

### 3.0 The Need for Budgetary Forecasting

As the Committee may recall, the Governor has instructed DFA to develop estimates of the future spending obligations of the General Fund. Prudent fiscal management requires reliable planning numbers for future programmatic obligations as well as the resources we expect to be available to meet those needs. Revenue and expenditure projections are required to prepare basic financial statements, to balance the budget and to determine if the state is closing its structural deficit or if the problem will be getting worse. Although the new estimate identifies \$110.1 million in additional revenues for FY11 over the February forecast, the Executive has indicated that these revenues should be applied to the \$27 million in cumulative FY11 emergencies expense and the balance should be applied to reserves.

The state has had consensus recurring revenue estimates for many years, but we lack a systematic way of projecting the structural costs of state government driven by factors beyond our control like population demographics, enrollments in education and health services programs as well as inflation that continue to drive state spending higher every year. A study of budgetary trends by DFA staff is attached and the Consensus Revenue Estimating Group has been briefed on its scope, approach, and conclusions several times during June. The prognosis for the General Fund is improving but still weak and structural reforms will likely be necessary to balance the budget if services are maintained at historical levels. This improved revenue outlook showing almost 10% year over year growth from FY10 to FY11 is a rate of growth well in excess of historical growth rates of 4.8% over the last 25 years. The administration is committed to funding state government on a “pay-as-you-go” basis.

The results from DFA’s draft study are enlightening. By our estimate, total state spending exceeds \$15 B per year, although the General Fund is only about one-third of that amount. The combination of Federal funds, revenues from government sponsored enterprises (GSE), transfers, and special appropriations from more than 1,100 special purpose funds are all balanced on recurring revenue to the General Fund. State agencies and their constituencies are more concerned about total funding made available for their programs than the source of those funds. When funds are received by state agencies, blending, mixing, and relabeling inevitably occurs to meet the constitutional and statutory obligations of the state. Dollars are obviously

fungible across all categories of expenditure and our financial history shows that when Federal funding falls as it has from FY10 to FY11 and FY12 state spending rises to meet those shortfalls.

More interestingly, and of more use for forecasting is the conclusion that when state expenditures and revenues are examined in their totality instead of their individual parts by source, very strong patterns emerge and persist. Public resistance to changes in patterns of tax collections and resistance to changes in how state funds are spent are actually helpful for forecasting because stronger patterns will usually persist longer. The patterns identified in the DFA draft study are shown to persist over periods of rapid growth, contraction, recessions and economic recoveries. The patterns also persist over different administrations, legislatures and generations of voters.

#### 4.0 DFA Draft Study of the Structural Deficit

Two important points must be acknowledged to comprehend the function and structure of the General Fund in New Mexico state government. First of all, the General Fund is us. Almost all of the revenues paid to the General Fund and almost all state expenditure arise from and are paid to the people of New Mexico. State spending supports only those programs demanded by the electorate and the state can collect only those taxes that citizens are willing to pay. We, including all of us here today, are the General Fund and over the recent past the gap between what the public demands from state government and what it is willing to pay in taxes has been made up by transfers from permanent funds, non-recurring revenues, and borrowing from the future through various means. DFA's working definition of a structural deficit is total state expenditure less all recurring revenue (including Federal funds, other state funds, and transfers). Stated another way, if total recurring revenues and total state expenditures are balanced, the state would rarely draw from its General Fund reserve accounts, non-recurring revenues, permanent funds or borrowing. State demographics, especially an aging population, and inflation primarily in health care services will cause substantial pressure from the public to allow the structural deficit to grow.

Unfortunately, demands placed upon state government always exceed resources available to meet those demands. For the last ten years historical levels of taxation have not been sufficient to meet General Fund recurring obligations on a pay-as-you-go basis. The state has had a structural deficit since 2003 even during peak periods of revenue collection. The current administration is committed to curing the structural deficit by maintaining low growth or no growth in state expenditures.

A second important insight from DFA's study is to acknowledge that the General Fund is directly related to all economic activity in the state and to each and every revenue stream received by the state. "The General Fund includes all revenues not otherwise allocated by law." (Section 6-4-2, NMSA 1978) When revenues received by the state are set aside for any of the 1,100+ special funds, General Fund revenue is diminished dollar for dollar for these special purposes. In other words, the General Fund is a residual stream of revenue affected by every

other activity of the state, and most state activities draw from the General Fund without contributing in equal measure.

Because the General Fund is directly related to all economic activity in the state and is impacted by all other state revenues and appropriations, every action and policy measure by the state affects every other part of state government. Perhaps the best way to understand these cross effects is to look at the recent increase in PIT. Logically, by increasing tax collections, private citizens have less money remaining to buy other goods and services that would be subject to other state taxes like GRT. An increase in PIT therefore causes a decrease in GRT.

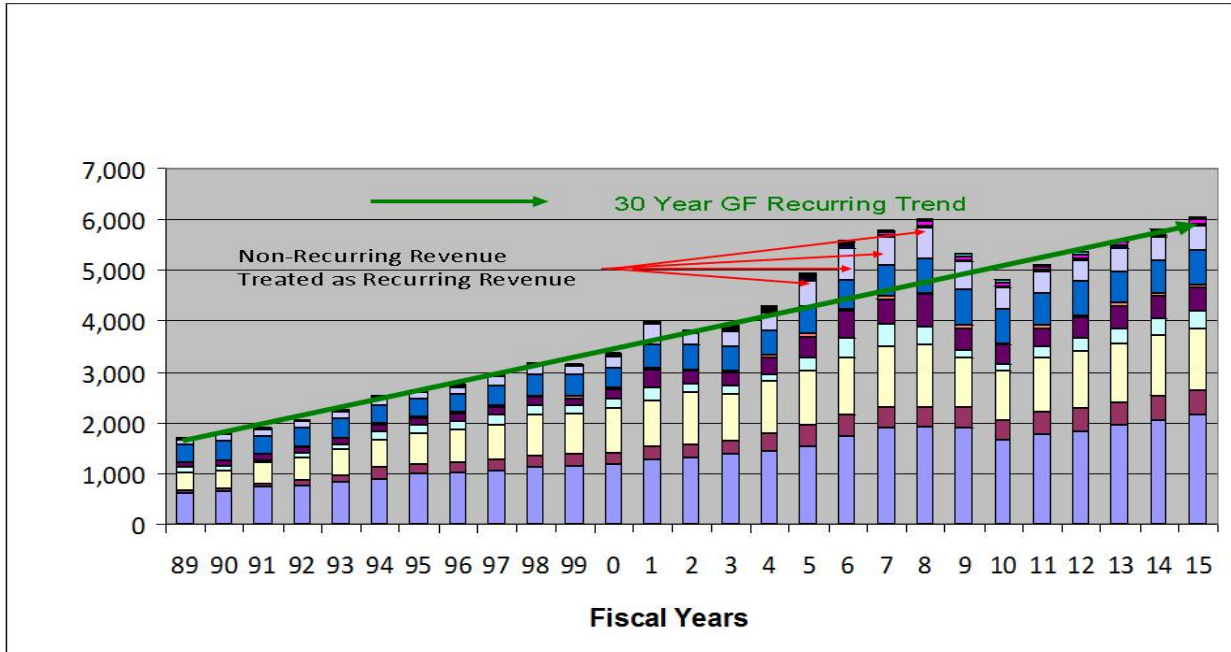
This subject matter is also addressed in DFA's study and this interconnectedness is called the "Circular Flow of the Economy." DFA welcomes any insights comments or suggestions about the study especially the appropriate classification of recurring and non-recurring revenues.

#### 5.0 The General Fund, Revenue Shares and Recurring Revenue

The Committee is encouraged to review Section 3 of the DFA study where revenue and expenditure shares are documented from General Appropriations Acts, Comprehensive Annual Financial Reports (CAFRS), General Fund Audits, and Consensus Revenue Forecasts. Section 4 in the study examines the Total General Fund adjusted for population (per capita) and expressed in current (2011) dollars. The structure of total state revenues and total state spending expressed in percentage shares is remarkably stable and this stability provides a firm structural foundation for forecasting both revenues and expenditures.

Figure 1 below is a graph of recurring revenue to the General Fund from FY89 through FY15. The long-term trend line in Figure 1 illustrates that some revenue for FY05-FY09 identified as recurring revenue did not recur and by FY08 more than \$1 B was misidentified. Using long-term trend as the basis for calculating recurring revenue would result in 4.8% annual compound rate of growth, a very handy rule of thumb. It is DFA's view that any revenue received in excess of 4.8% growth ought to be considered as non-recurring. When revenues climb faster than this historical rate, the electorate exerts pressure to reduce the tax burden. When revenue collections fall below this rate of growth the electorate exerts pressure to increase the level of services.

**Figure 1 Long Term Recurring Revenue Trend**



**6. Revenue Components and New Mexico Gross State Product (GSP)**

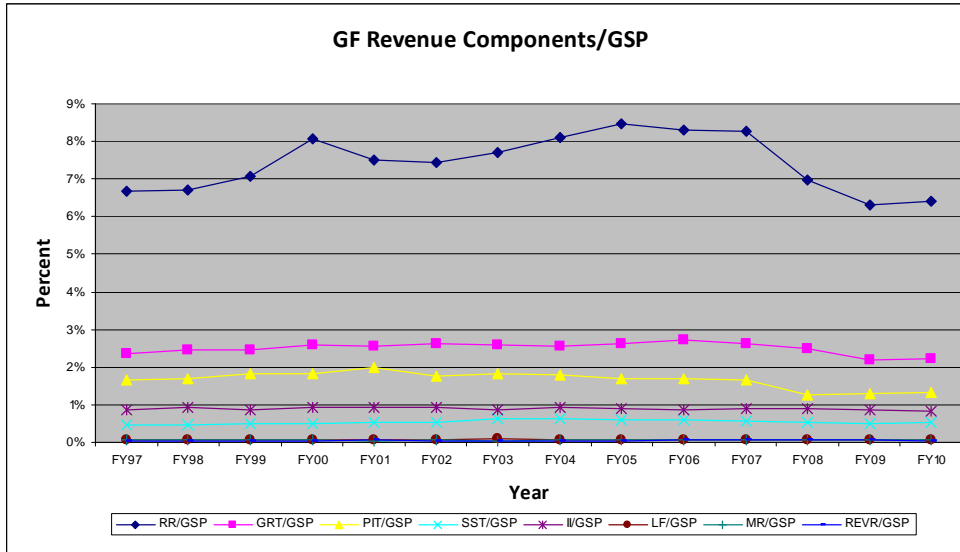
Figure 2 below is a plot of recurring revenue (RR), gross receipts tax (GRT), personal income taxes (PIT), selective sales taxes (SST), interest on state investments (II), license fees (LF), miscellaneous revenue, (MR), and reversions (Rev) expressed as a percent of GSP. Although General Fund recurring revenue as a percent of GSP has varied by as much as 2 percent, none of the revenue components has varied by as much as 1 percent and most components have varied by as little as 1/10<sup>th</sup> of a percent of GSP since FY97. [Figure 2 excludes minerals revenue components.]

The remarkable stability of these revenue shares reinforces the basic premise of a structural forecasting approach—tax collections are directly related to economic activity in the state. A great advantage of this approach is to allow analysts to focus on aggregate economic activity without addressing how specific industries might be faring with the vicissitudes of the global economy.

When economic activity is trending upward or downward analysts need only to focus on variation of the forecast in one direction and adjust proportionately. When the CREG concludes that GF revenues are trending upward with respect to GSP, downward variations would be considered contrary to trend and analysts can focus on the history of upward revisions not the entire spectrum of historical changes. Changes in legislation are the primary drivers of changing revenue shares and the largest downward shift in tax collections as a percent of GSP has been about -0.6%. The largest upward shift has been about 0.21%. These historical percentages

permit analysts to frame the range of possible changes to these components from year to year after the CREG agrees upon future GSP growth.

**Figure 2 General Fund Revenue Components as a Percent of GSP**



## 7.0 The New Mexico Economic Outlook

Table 1 presents a forecast of U.S. and New Mexico economic indicators with additional information on growth of health care costs and unemployment claims. DFA has imputed a forecast for Gross State Product, the primary driver of tax collections in our model and the principal explanatory variable for the revenue outlook. Real GSP is expected to increase by about \$2 B/year, roughly 2.8% annually, from FY11 through FY15. The population of New Mexico however is expected to grow by 1.7% per year suggesting that on a per capita basis, GSP will grow very slowly, about 1%/year in real terms. The table also shows that the state share of Medicaid growth and inflation for health care services which are rising much faster than costs of other goods and services. In FY13 inflation rates for health care services are expected to be almost twice the rate of inflation in the total economy.

The outlook for employment in New Mexico is particularly troublesome since job growth will average about 1.2%/year while population grows at a faster rate of 1.7%. Continued unemployment jobless claims may be understated in 2013 through 2015 if the economic recovery does not create new jobs in proportion to the in-migrating population. Reducing levels of unemployment would boost personal incomes and General Fund revenue and simultaneously reduce the state's burden for unemployment benefits.

**Table 1.0 Forecast of U.S. and New Mexico Economic Indicators**

		FY11	FY12	FY13	FY14	FY 15	FY 21
<b><u>NM Outlook</u></b>							
Imputed <u>Real</u> NM GSP, \$ Billions	<sup>1</sup>	67.0	68.9	70.8	72.8	74.7	88.1
NM Population Growth, %	<sup>2</sup>	1.7	1.7	1.7	1.7	1.7	1.5
NM Share of Medicaid Cost Growth, %	<sup>3</sup>	3.0	38.1	11.7	11.7	11.7	11.7
<b><u>National Economic Indicators</u></b>							
US <u>Real</u> GDP Growth (annual avg. ,% YOY)	<sup>1</sup>	2.7	3.0	2.7	3.1	3.3	3.3
US Inflation Rate (CPI, annual avg., % YOY)	<sup>4</sup>	2.0	2.6	1.9	2.0	2.1	2.1
US Inflation Rate (CPI for Health Care annual avg., % YOY)	<sup>5</sup>	3.8	3.7	3.7	3.7	3.6	3.6
Federal Funds Rate (%)		0.2	0.3	2.7	3.5	4.2	4.2
<b><u>NM Labor Market and Income Data</u></b>							
NM Non-Agricultural Employment Growth (%)		0.1	1.3	1.5	1.3	1.2	1.2
NM Personal Income Growth (%)	<sup>6</sup>	4.2	4.2	4.3	4.8	5.0	5.0
NM Private Wages & Salaries Growth (%)		2.8	4.5	4.9	4.6	4.4	4.4
NM Continued Unemployment Jobless Claims (000)		22.5	20.1	18.4	17.1	15.0	10.5
<b><u>NM Crude Oil and Natural Gas Outlook</u></b>							
NM Oil Price (\$/barrel)	<sup>7</sup>	85.50	87.80	89.50	89.50	89.50	84.00
NM Taxable Oil Volumes (million barrels)		65.40	67.40	68.70	69.40	68.70	62.74
NM Gas Price (\$ per thousand cubic feet)	<sup>8</sup>	5.20	5.60	6.20	6.40	6.50	6.00
NM Taxable Gas Volumes (billion cubic feet)		1,224	1,184	1,147	1,111	1,077	954

<sup>1</sup> Real GDP is BEA chained 2005 dollars, billions, annual rate

<sup>2</sup> U.S. 2010 Census and UNM BBER Population and Demographics

<sup>3</sup> Based on HHS 2011 and 2012 projected expenditures; FY13-FY21 NM average annual growth in state share of Medicaid spending, from FY98-FY10; FY12 estimate of state share = \$1.1 Billion

<sup>4</sup> CPI is all urban, BLS 1982-84=1.00 base

<sup>5</sup> CPI all urban, BLS 1982-84=1.00 base; medical care, commodities and services composite average

<sup>6</sup> Personal Income growth rates are for the calendar year in which each fiscal year begins

<sup>7</sup> Reflects negative differential for NM crude, deductions average 10.5 % over forecast period

<sup>8</sup> Gas prices include NM premium for natural gas liquids, deductions average 23.5% over forecast period

## 8.0 The Structural Recurring Revenue Forecast

DFA's structural forecast for recurring revenue is shown in Table 2. Non-recurring revenue, reversions, borrowing, and interception of funds flowing to the permanent funds are excluded by definition. The estimates in Table 2 also exclude the non-recurring portions of oil and gas prices calculated as the amount that annual average prices exceed the lowest annual average price in the forecast. As an example FY13 assumes an annual average price for oil of \$89.5/BBL which is \$4.50 higher than the \$84/BBL in the long term forecast. For all elements of the forecast that have an oil component, oil and gas school tax, oil and gas conservation tax, etc., the FY13 recurring part in the structural forecast is 95% of oil related revenues and the non-recurring part is 5%. To be clear Table 2 is DFA's estimate of recurring revenue based on long-term recurring revenue structure and Table 3 is an estimate based upon contemporaneous revenue collections reflected in the consensus estimate which DFA agrees with. Essentially, the CREG forecast (Table 3) presumes all future revenue in the forecast is recurring while DFA's definition is an attempt to develop a floor under the forecast which represents the portion of revenue most likely to recur without drawing from other funds, non-recurring revenue, or other sources of income for General Fund recurring expenditure.

**Table 2 Economic Analysis Unit of DFA Structural Recurring Revenue Forecast as a Percent of GSP**

<u>FY</u>	<u>GF</u>	<u>GRT</u>	<u>PIT</u>	<u>CIT</u>	<u>Insur</u>	<u>Sev</u>	<u>Invest</u>	<u>Rents &amp; Royalties</u>	<u>Other</u>
2011	5.2	1.8	1.1	0.2	0.1	0.3	0.6	0.4	0.6
2012	5.3	1.8	1.1	0.2	0.1	0.3	0.6	0.4	0.7
2013	5.4	1.8	1.1	0.2	0.1	0.3	0.6	0.4	0.7
2014	5.6	1.9	1.2	0.2	0.1	0.3	0.7	0.5	0.7
2015	5.9	2.0	1.2	0.2	0.1	0.4	0.7	0.5	0.8
GF share		34.0%	21.0%	3.4%	2.5%	6.0%	12.0%	8.0%	13.1%

**Table 3 Consensus Recurring Revenue Estimate of July 2011**

<u>FY</u>	<u>GF</u>	<u>GRT</u>	<u>PIT</u>	<u>CIT</u>	<u>Insur</u>	<u>Sev</u>	<u>Invest</u>	<u>Rents &amp; Royalties</u>	<u>Other</u>
2011	5.3	1.9	1.1	0.2	0.1	0.4	0.6	0.5	0.5
2012	5.5	1.8	1.1	0.3	0.1	0.4	0.7	0.5	0.6
2013	5.8	1.9	1.1	0.4	0.1	0.4	0.7	0.5	0.7
2014	6.0	2.0	1.2	0.4	0.2	0.5	0.7	0.5	0.5
2015	6.3	2.1	1.2	0.4	0.2	0.4	0.7	0.5	0.8
GF share		34.0%	21.0%	3.4%	2.5%	6.0%	12.0%	8.0%	13.1%

## 9.0 The General Fund Financial Summary [GFFS] and New Mexico State Finances

The General Fund Financial Summary shown in Table 4 is supposed to reflect the health of the General Fund, and we have shown that the General Fund is affected by every other revenue stream. The health of the General Fund is heavily impacted by the availability of Federal funds in particular, but also to a large degree on the level of services demanded from state government. Balancing the budget and determining the health of the General Fund requires a comparison of budgetary priorities and the funds available to meet those priorities.

The GFFS actually shows a recurring revenue surplus for FY11 through FY13, a considerable improvement in the financial condition of the General Fund since the February outlook. This improvement is largely attributable to maintaining a flat budget from FY12 to FY13. Appropriations forecast in the GFFS do not increase with inflation, population growth or enrollments in education and health care services programs. The improvement is also dependent upon maintaining Federal funding levels realized in FY11 which may be impacted by ongoing budget/deficit reduction negotiations. Any unanticipated reduction in revenues from government sponsored enterprises (GSE's), other state funds, or internal transfers would have to be made up from the General Fund, assuming no further budget cuts, and would likely eliminate the surplus and push the General Fund into a deficit again.

Without an economic or accounting definition of the structure, function or purpose of the General Fund, the GFFS is a fleeting snapshot of about one-third of state revenues and expenditures and really has no meaning without a clear understanding of how these revenues are collected, mixed, relabeled, appropriated and spent.<sup>1</sup> Most troublesome of all definitions of the General Fund is the concept of recurring and non-recurring revenue. Since these definitions have emerged through practice and are not defined in statute, the CREG has agreed to consider this distinction more fully in future meetings.

The new revenue estimate raises reserve balances to 7.2% in FY11, 9.2% in FY12 and 16.0% in FY13. Compared to total state spending, reserve balances roughly correspond to not more than one or two weeks of total state spending.

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<sup>1</sup> The transmittal letter from the auditors of New Mexico's FY10 General Fund audit clearly state that the General Fund does not represent the financial condition of the state of New Mexico:

- "...the financial statements ...do not purport to, and do not, present fairly the financial position for the State of New Mexico [Moss/Adams transmittal letter for the FY10 General Fund Audit].
- "The state General Fund does not constitute a primary government, component unit, or any other type of reporting entity as defined by generally accepted accounting principles." [p. 15]

**Table 4: GFFS Based on the July 14, 2011 Consensus Revenue Estimate**

<b>GFFS - 2011 Legislation Passed</b>				
<b>(Dollars in Millions)</b>				
		<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>
		<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
<b>APPROPRIATION ACCOUNT</b>				
<b>REVENUE</b>				
Recurring Revenue July 11, 2011 CREG		5,274.4	5,533.4	5,802.3
Nonrecurring Revenue July 11, 2011 CREG		66.8	18.3	(3.3)
<b>TOTAL REVENUE</b>		<b>\$ 5,341.2</b>	<b>\$ 5,551.7</b>	<b>\$ 5,799.0</b>
<b>APPROPRIATIONS</b>				
Recurring Appropriations		5,212.9	5,431.3	5,431.3
Nonrecurring Appropriations		18.2		
<b>TOTAL APPROPRIATIONS</b>		<b>\$ 5,231.1</b>	<b>\$ 5,431.3</b>	<b>\$ 5,431.3</b>
<b>Transfer to(from) Reserves</b>		<b>\$ 110.1</b>	<b>\$ 120.4</b>	<b>\$ 367.7</b>
<b>GENERAL FUND RESERVES</b>				
<b>Beginning Balances</b>		278.0	369.5	490.7
Transfers from (to) Appropriations Account		110.1	120.4	367.7
Revenue and Reversions		50.8	11.7	12.7
Appropriations, expenditures and transfers out		(69.4)	(11.0)	(11.0)
<b>Ending Balances</b>		<b>\$ 369.5</b>	<b>\$ 490.7</b>	<b>860.1</b>
<i>Reserves as a Percent of Recurring Appropriations</i>		<i>7.1%</i>	<i>9.0%</i>	<i>15.8 %</i>

Notes: FY13 recurring appropriations reflect budgetary guidelines issued to state agencies and do not reflect likely increases in Medicaid, emergency expenditures and cost growth for other state services that may be required.

# Updated Consensus General Fund Revenue Estimates

Presented to the Legislative Finance Committee

July 14, 2011

Secretary Demesia Padilla, NM Taxation and Revenue Department

## Executive Summary

The consensus forecast update is a joint product of legislative and executive branch economists. They use a variety of information sources and statistical methods. The end product reflects agreement on each revenue that comprises the state General Fund. Details of their forecast are presented in Appendix Table 2. A summary of the revisions is presented in Table 1 below.

**Table 1**  
**July 2011 Consensus General Fund Revenue Forecast**  
(Million Dollars)

	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>
<i>Recurring revenue:</i>					
December 2010 Estimates	5,164.3	5,389.7	5,615.2	5,827.4	6,056.7
2011 Legislation	-	23.5	22.3	23.2	28.2
July 2011 forecast revisions	110.6	120.2	164.8	189.6	186.0
<b>July 2011 Estimates</b>	<b>5,274.9</b>	<b>5,533.4</b>	<b>5,802.3</b>	<b>6,040.2</b>	<b>6,270.8</b>
Annual percent change	9.9%	4.9%	4.9%	4.1%	3.8%
<i>Non-recurring revenue:</i>	66.8	18.3	(3.3)	(0.9)	-
<b>Total revenue</b>	<b>5,341.7</b>	<b>5,551.7</b>	<b>5,799.0</b>	<b>6,039.3</b>	<b>6,270.8</b>

The primary legislative change from the 2011 session was the reduction of film production tax credits, these changes increased General Fund revenue by \$20-25 million per year. The July forecast revisions increase FY11 revenue by \$110.1 million, FY12 revenue by \$120 million and FY13 revenue by \$164.8 million.

Major revisions to individual revenues are illustrated in Table 2 and described briefly below.

**Table 2**  
**July 2011 Major Forecast Revisions by Revenue**  
(Million Dollars)

	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>
Gross Receipts Tax	57.0	52.5	56.2	63.2	61.2
Tobacco taxes	6.0	7.5	6.5	6.0	5.7
Motor vehicle excise tax	4.7	4.6	3.0	4.6	3.9
Corporate income tax	(40.0)	-	28.0	34.4	20.6
Oil & gas revenues	66.9	39.2	58.7	70.0	65.5
Investment income	(1.5)	11.2	10.6	12.9	35.2
Other	17.5	5.2	1.8	(1.5)	(6.2)
<b>Total recurring revenue</b>	<b>110.6</b>	<b>120.2</b>	<b>164.8</b>	<b>189.6</b>	<b>186.0</b>
Non-recurring revenue	(0.5)	-	-	-	-
<b>Total revenue</b>	<b>110.1</b>	<b>120.2</b>	<b>164.8</b>	<b>189.6</b>	<b>186.0</b>

- The main contributor to gross receipts tax growth has been the service sectors, which comprise the largest part of the tax base. However, the sector showing the greatest percentage growth is the mining and oil & gas extraction sector with 42% growth in FY11 over FY10. The retail trade sector has been mixed, a very good December has been followed by subdued or even negative growth in some months this spring.
- Corporate income tax (CIT) collections are down \$40 million in FY11 due to higher-than-expected payments of film credits. However, film credits will be capped at \$50 million in FY12 and after. Meanwhile, underlying revenue growth has been very strong, and a further increase is expected starting in FY13 due to expiration of the bonus depreciation provisions of federal law.
- Oil and gas tax and royalty revenues are up significantly due to higher oil prices, increasing oil production and higher bonus payments for new wells.
- Cigarette tax collections are higher than forecast because sales of taxable cigarettes have not fallen as sharply as was expected at the time the tax rate was increased from 91 cents to \$1.66 per pack.
- Motor vehicle excise tax revenue is up as vehicle sales rebounded from historic lows. Growth for FY11 is now expected to be almost 12%.

- Permanent fund earnings are up due to stronger investment performance. In addition, contributions of royalty revenue are higher, which contributes to higher distributions in the future.

## **Economic Outlook (Appendix Table 1):**

### **U.S. Economy:**

Economic growth as measured by Gross Domestic Product (GDP) was weak during the first half of 2011. Food and gasoline price hikes and supply-chain interruptions due to the earthquake in Japan have reduced consumer spending and employment growth. Growth is expected to improve in the second half of 2011 as these temporary factors become less important and the gradual recovery from recession takes hold. Food and energy prices remain elevated but are down from their peaks, so inflation should ease in the second half of the year. Core inflation will be capped by very low wage inflation. This forecast assumes that some further progress on deficit reduction accompanies a summer debt-ceiling extension, but no comprehensive deficit-reduction plan is expected before the 2012 elections. The Federal Reserve is expected to remain on “hold,” no further quantitative easing is expected but also no rate hike before September 2012.

### **New Mexico Economy:**

The payroll tax holiday adopted by Congress at the beginning of the year may increase take home pay for New Mexicans by \$600 million in calendar year 2011, providing a boost to consumer and business spending. While employment has continued to lag in New Mexico and has not exceeded expectations, both personal income and private wages and salaries have grown more than expected in FY11. Preliminary data indicate that FY11 New Mexico personal income grew by 4.2%. The FOR-UNM economic forecast expects growth at a rate between 4% and 5% per year. Over the past few years personal income in New Mexico has been propped up with transfer payments from the government, but the forecast assumes more growth will come from private wage and salary disbursements.

*Specific factors affecting NM growth:*

The locomotive fuel deduction passed in the 2011 legislative session and signed by Governor Martinez paved the way for construction to begin this June on the new Union Pacific rail-yard and fueling station. The project will temporarily create thousands of construction jobs as Union Pacific plans to invest more than \$400 million to construct the facility. Hundreds of permanent jobs will also be created at the facility as it becomes operational.

The resumption of mining activities by Freeport-McMoRan at the Chino Mine has continued on schedule also adding hundreds of jobs to the New Mexico economy. Freeport-McMoRan expects to spend \$150 million at the mine for equipment and mill refurbishment

New Mexico has also begun to see job growth through the acceleration of oil exploration, drilling and production activities. The Oil Conservation Division reports a significant increase in drilling activity in the Permian Basin, although activity in the San Juan Basin is still declining.

In addition to PNM's solar projects there are at least two additional large solar-electric projects underway in New Mexico this year. The Roadrunner Solar Electric Facility near Santa Teresa is planned at 20-megawatts. The 54-megawatt Xcel Energy/SunEdison project in Eddy and Lea counties will be the State's largest to date. Recent deductions and credits have largely eliminated millions of dollars in gross receipts tax revenue that would have potentially been generated by the construction of these solar facilities. New Mexico's renewable portfolio standard requires that regulated electric utilities use renewable energy sources for 15 percent of their electricity needs by 2015 and 20 percent by 2020.

## **Energy Markets:**

### *Natural Gas:*

Natural gas contributed approximately 55% of all General Fund revenue from oil and gas production in FY11. This share is down from an average of almost two-thirds over the last decade. Gas prices have fallen relative to oil prices, reducing the share of revenue attributable to gas. Natural gas prices have been remarkably stable over the past year. The FY11 average price

was almost exactly equal to the FY10 value of approximately \$5.20 per thousand cubic feet (Mcf). Futures markets predict an increase of \$0.30 to \$0.40 per year in the next few years. Price improvement is attributed to increased demand due to economic growth combined with a slower growth in production as drilling activity shifts to more lucrative oil-rich formations. Natural gas liquids generated a premium of approximately \$1.30 per Mcf in FY11, an amount that is included in the \$5.20 average price mentioned earlier. This is expected to continue because liquids track oil prices, which are expected to remain high relative to dry gas. Gas production volume continues to decline in New Mexico, falling almost 5% in FY11. Drilling activity directed at gas formations continues to decline due to the huge price difference between gas and oil.

#### *Crude Oil:*

New Mexico oil prices rose steadily over the course of FY11, starting around \$70 per barrel and ending close to \$95. The average for the year was \$85.50. The New Mexico average was about \$4 per barrel less than the West Texas Intermediate benchmark. The consensus forecast assumes oil prices will rise by 2% to 3% over the next two fiscal years and stabilize close to \$90 per barrel. This is close to the highest annual oil price on record, \$93.74 in FY08. Rising prices are expected to result from increasing demand in developing countries. There is a limit to this process, however, because high prices are leading to greater conservation efforts. High prices are also stimulating production. Increased production from non-OPEC countries and excess capacity in OPEC countries should limit upward price spikes. Oil price increases over the last two years appear to be due in part to increased speculative activity. Although hard to predict, these increases are unlikely to be repeated. Oil production in New Mexico rose by 4.3% in FY11. Record bonus payments for State Land Office leases indicate that production will continue to increase.

### **Outlook for individual Revenues (Appendix Table 2):**

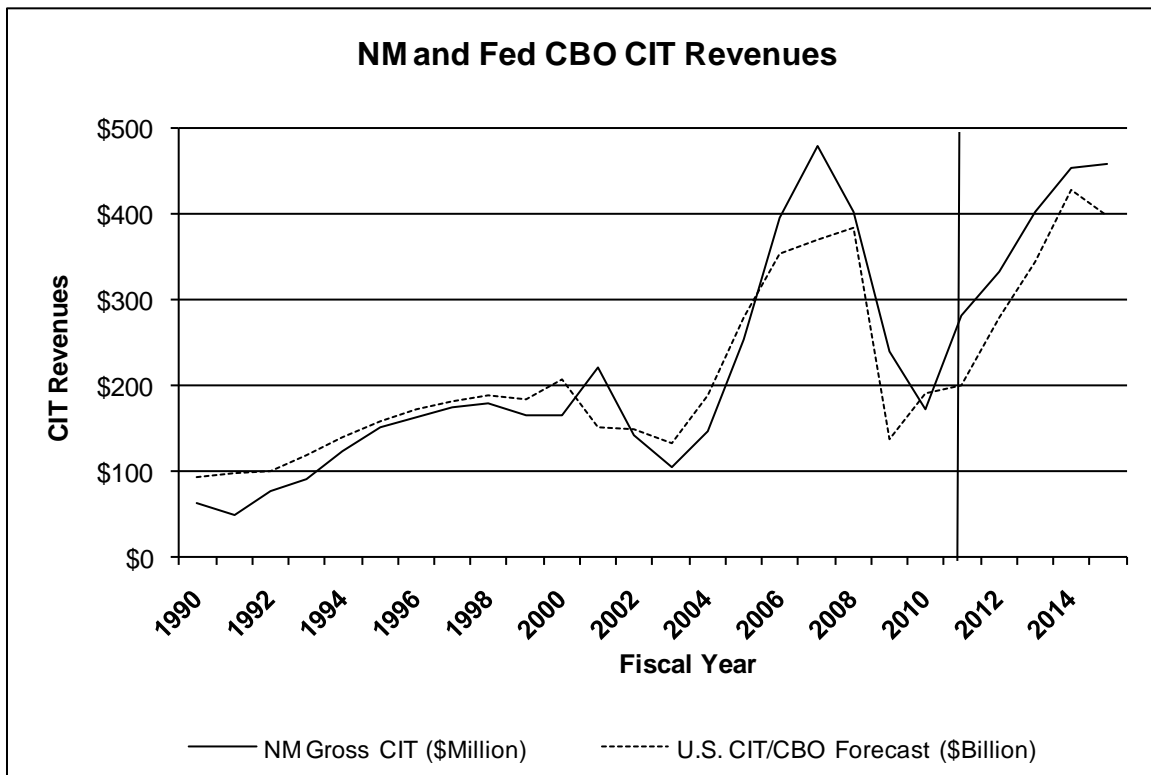
#### **Personal Income Tax (PIT):**

FY11 collections are consistent with the December 2010 forecast, which included an estimated \$50 million increase from disallowing the itemized deduction for state income tax. Excluding that increase, growth would have been 5%. Refundable credits (Working Families Tax Credit

and LICTR) reduced net PIT by almost \$80 million in FY11. With 10 months of the fiscal year completed, withholding payments are on pace to increase by about 2% in FY11. Estimated and return payments were up almost 20% and refunds were down 5%. Oil and gas withholding payments were flat.

**Corporate Income Tax (CIT):**

Gross CIT collections rebounded strongly in FY11, increasing by almost 65% from the depressed level of FY10. The following figure illustrates the close relationship between New Mexico CIT and CIT collections of the federal government. New Mexico’s gross CIT collections – before film credit payments – rose more quickly than federal collections in FY11. The Congressional Budget Office (CBO) projects a significant increase in CIT collections in FY13 and FY14 due to the expiration of bonus depreciation provisions. Since New Mexico piggybacks on those provisions, state collections should experience a similar increase.



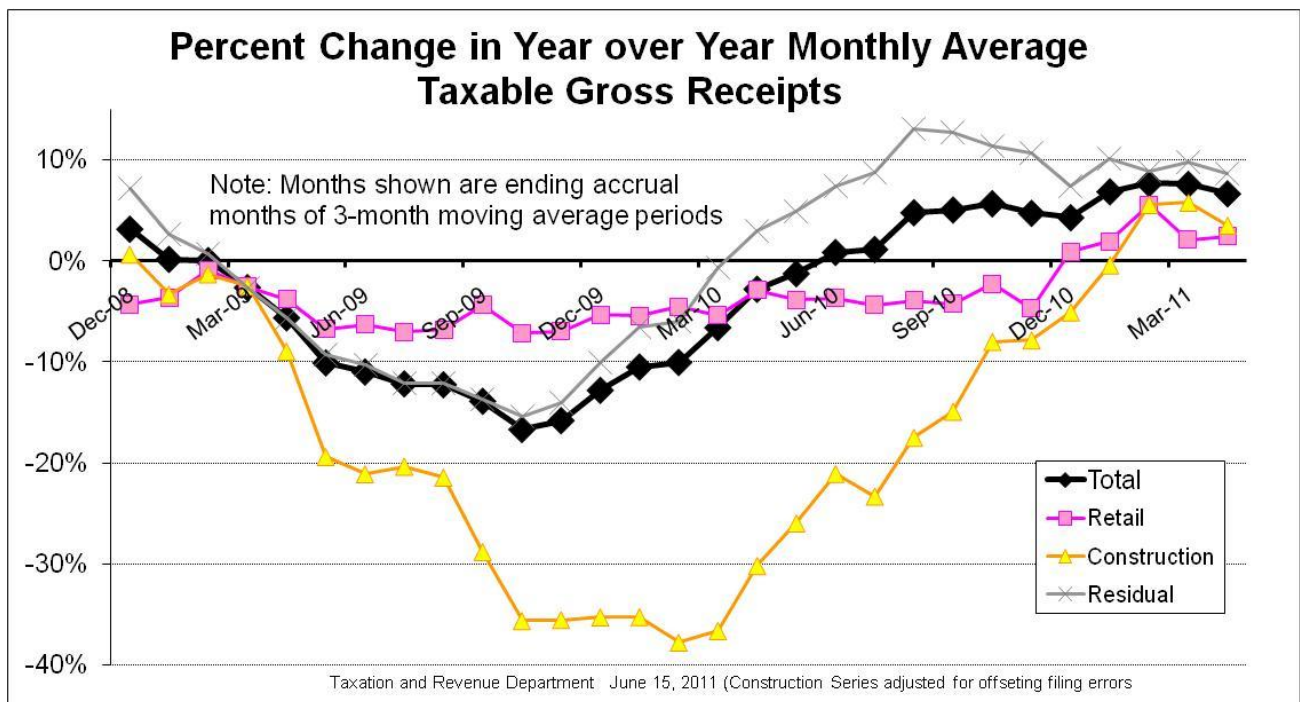
Film production tax credits are subtracted from gross CIT revenue to determine net CIT revenue to the General Fund. The following table presents film credits approved and paid by fiscal year. Two sets of changes have been made in the July estimates relative to the December 2010 estimates. The July revenue forecast reflects the credit amounts actually paid in each fiscal year rather than the amounts on approved applications. In some cases, companies take several months to a year or more before they claim a credit after their application is approved. The credit amounts as paid are a more accurate reflection of when the credits impact the General Fund. In addition, the July estimate reflects increased credit payments in FY11 due to accelerated claims by a number of companies attempting to collect credit under old law rules. Finally the July estimate reflects the effects of the \$50 million cap on credit payments in each fiscal year beginning with FY12.

<b>Film Credits by Fiscal Year:</b>		
	Dec. 2010 Forecast	July 2011 Forecast
	Film Credit Applications Approved:	Film Credits Paid:
FY03	\$1,219,508	\$1,116,187
FY04	\$3,404,963	\$1,736,665
FY05	\$2,072,633	\$2,104,583
FY06	\$10,742,480	\$7,862,358
FY07	\$17,578,139	\$19,545,082
FY08	\$46,029,904	\$42,990,812
FY09	\$76,706,379	\$82,340,373
FY10	\$65,912,933	\$45,367,424
FY11	\$65,000,000	\$102,000,000
FY12	\$68,250,000	\$50,000,000
FY13	\$71,662,500	\$50,000,000
FY14	\$75,245,625	\$50,000,000
FY15	\$79,007,906	\$50,000,000

**Gross Receipts Tax (GRT):**

The brightest spot in New Mexico’s revenue picture so far this year has been gross receipts tax revenues rebounding faster than expected. Year-to-date taxable gross receipts have increased

about 6% over FY10. This growth in the base combined with the 1/8<sup>th</sup> percent rate increase puts FY11 gross receipts tax revenue on track to grow by almost 10%. After finally hitting the bottom at the very end of calendar 2010 receipts from the construction sector have actually started to grow slightly during the first few months of 2011. Nevertheless, it may take more than a decade for construction sector employment and gross receipts tax revenue to reach the levels seen during the housing bubble in FY07 & FY08. The service sectors have contributed the most to the faster growth due to their size; however, the sector showing the greatest growth year-to-date has been the mining and oil & gas extraction sector with 42% growth over FY10. The retail trade sector has remained mixed in FY11. Other than a very good December growth has remained subdued or even negative. We suspect that so far the benefits of the payroll tax holiday to New Mexican's paychecks have been mostly cancelled out by the burden of higher gas prices at the pump.



**Other Revenues:**

Motor Vehicle Excise Tax (MVX) revenue has also rebounded somewhat faster than expected from FY10's dismal year. In FY10 MVX revenue dropped to only \$92 million, which was \$38

million or 30% below the peak year of FY07. For FY11 MVX revenue is now on track to grow almost 12 percent to \$103 million. This is an upward revision of \$4.7 million from December's forecast. Even with FY11's robust growth, the level of revenue in MVX seen in FY07 is not expected to be surpassed again until FY16.

Cigarette excise tax collections increased by an estimated \$42 million in FY11. This was due to 2010 legislation that increased the tax rate by 75 cents, from 91 cents a pack to \$1.66 a pack. The unique feature of this cigarette tax increase was that tribes were required to impose a qualifying tribal cigarette tax themselves of at least 75 cents. The tax increase was forecast to raise an additional \$33 million in FY11. It appears that the tribal tax requirements have largely been implemented correctly and are working as planned. Even though taxable sales volumes did drop the reduction in sales and shift to tribal sales was not as large as anticipated. Cigarette revenue is now expected to be about \$6 million higher than in the December estimate.

In February the Navajo Nation began construction on a \$66 million casino outside Farmington that is scheduled to open in January 2012. The Navajo Nation will share revenues from the casino's 750 new slot machines with the State at a rate of 8% (under the conditions of the 2001 Tribal-State Class III Gaming Compact). The new casino is expected to cannibalize some business from the SunRay Racetrack-Casino (which shares revenue at a 26% rate); however, the net revenue impact to the State is expected to be slightly positive.

The County Gaming Tax Credit went into effect for Ruidoso Downs Racetrack & Casino this January. It will effectively cut their tax rate in half up to a maximum benefit of \$750,000 annually. The General Fund will be held harmless through revenue generated from Lincoln County's 3/16% Business Retention Gross Receipts Tax. Last September 7,018 Lincoln County residents approved the tax by a margin of 420 votes.

## **Risks to the Forecast:**

### *Negative Risks:*

Failure to raise the U.S. federal debt ceiling by the deadline of August 2 could lead to a massive fiscal contraction and a financial crisis, although it would not necessarily mean a debt default. Housing markets remain depressed as foreclosures and short sales continue to push prices down and reduce the incentive to construct new homes. Employment growth is below levels needed to reduce the unemployment rate. High unemployment prevents significant wage gains and holds down growth of consumer spending. The sovereign debt crisis is still far from resolution. It poses significant risks to worldwide growth.

### *Positive Risks:*

Reversal of food and energy price spikes from the spring could trigger faster consumer spending growth in the second half of this year. Falling gasoline prices and recovery of Japan's auto parts supplies could stimulate vehicle sales and domestic production. Improved business confidence and easier credit could stimulate investment, including a boost to the construction sector. Successful resolution of the sovereign debt crisis will boost international growth and demand for U.S. exports. Although further stimulus actions are being contemplated, their impacts will be offset over time by the need to reduce federal indebtedness and to avoid long-term inflationary impacts.

**APPENDIX TABLE 1**  
**U.S. and New Mexico Economic Indicators**

	FY10		FY11		FY12		FY13		FY14		FY15	
	Dec10 Prelim	July11 Actual	Dec10 Forecast	July11 Forecast	Dec10 Forecast	July11 Forecast	Dec10 Forecast	July11 Forecast	Dec10 Forecast	July11 Forecast	Dec10 Forecast	July11 Forecast
<b>National Economic Indicators</b>												
US Real GDP Growth (annual avg. ,% YOY)*	0.7	1.2	2.5	2.7	2.6	3.0	2.9	2.7	2.7	3.1	3.3	3.3
US Inflation Rate (CPI, annual avg., % YOY)**	1.0	1.0	1.3	2.0	1.7	2.6	2.0	1.9	2.1	2.0	2.2	2.1
Federal Funds Rate (%)	0.2	0.2	0.1	0.2	0.3	0.3	2.7	2.7	3.5	3.5	4.2	4.2
<b>New Mexico Labor Market and Income Data</b>												
NM Non-Agricultural Employment Growth (%)	-3.2	-3.2	0.2	0.1	1.0	1.3	1.3	1.5	1.5	1.3	1.4	1.2
NM Personal Income Growth (%)***	0.0	0.1	3.5	4.2	2.2	4.2	3.2	4.3	3.9	4.8	5.1	5.0
NM Private Wages & Salaries Growth (%)	-2.3	-2.4	2.2	2.8	3.6	4.5	3.7	4.9	4.1	4.6	4.1	4.4
<b>Crude Oil and Natural Gas Outlook</b>												
NM Oil Price (\$/barrel)	\$71.29	\$71.29	76.87	\$85.50	\$82.69	\$87.80	\$85.60	\$89.50	\$88.01	\$89.50	\$90.46	\$89.50
NM Taxable Oil Volumes (million barrels)	62.70	62.70	63.30	65.4	64.0	67.4	64.6	68.7	65.2	69.4	65.9	68.7
NM Gas Price (\$ per thousand cubic feet)****	\$5.18	\$5.18	5.00	\$5.20	\$5.75	\$5.60	\$6.37	\$6.20	\$6.58	\$6.40	\$6.73	\$6.50
NM Taxable Gas Volumes (billion cubic feet)	1,285	1,285	1,234	1,224	1,197	1,184	1,161	1,147	1,126	1,111	1,092	1,077

\* Real GDP is BEA chained 2005 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

\*\*\*\*The gas prices are estimated using a formula of NYMEX, EIA, and Global Insight future prices as well as a liquid premium based on oil prices.

Sources: May Global Insight and June BBER

**APPENDIX TABLE 2**  
**Consensus General Fund Revenue Estimate**  
**July 2011**

	<b>FY11</b>					<b>FY12</b>				
	Dec. 10 Est.	Dec. 10 Est. Adj. for Leg. & Post	July 2011 Est. Prelim Actual	Change from Prior	% Change from FY10	Dec. 10 Est.	Dec. 10 Est. Adj. for Leg.	July 2011 Est.	Change from Prior	% Change from FY11
Gross Receipts Tax	1,740.0	1,740.0	1,797.0	57.0	9.9%	1,810.0	1,809.5	1,862.0	52.5	3.6%
Compensating Tax	64.5	64.5	68.0	3.5	33.6%	67.7	67.7	70.5	2.8	3.7%
<b>TOTAL GENERAL SALES</b>	<b>1,804.5</b>	<b>1,804.5</b>	<b>1,865.0</b>	<b>60.5</b>	<b>10.7%</b>	<b>1,877.7</b>	<b>1,877.2</b>	<b>1,932.5</b>	<b>55.3</b>	<b>3.6%</b>
Tobacco Taxes	81.0	81.0	87.0	6.0	90.4%	78.6	78.6	86.1	7.5	-1.0%
Liquor Excise	25.5	25.5	24.8	(0.7)	-3.1%	26.0	26.0	25.2	(0.8)	1.6%
Insurance Taxes	137.3	137.3	137.3	-	5.4%	142.2	142.2	142.2	-	3.6%
Fire Protection Fund Reversion	18.3	18.3	18.3	-	266.0%	17.4	18.7	18.7	-	2.2%
Motor Vehicle Excise	98.3	98.3	103.0	4.7	11.6%	107.4	107.4	112.0	4.6	8.7%
Gaming Excise	64.9	64.9	66.5	1.6	2.2%	66.0	66.0	67.2	1.2	1.1%
Leased Vehicle Surcharge	5.8	5.8	5.0	(0.8)	-12.3%	5.6	5.6	5.1	(0.5)	2.0%
Other	3.0	3.0	3.0	-	-6.0%	3.0	3.0	3.0	-	0.0%
<b>TOTAL SELECTIVE SALES</b>	<b>434.1</b>	<b>434.1</b>	<b>444.9</b>	<b>10.8</b>	<b>19.3%</b>	<b>446.2</b>	<b>447.5</b>	<b>459.5</b>	<b>12.0</b>	<b>3.3%</b>
Personal Income Tax	1,055.0	1,055.0	1,055.0	-	10.3%	1,095.0	1,094.9	1,094.9	-	3.8%
Corporate Income Tax	220.0	220.0	180.0	(40.0)	43.9%	260.0	283.3	283.3	-	57.4%
<b>TOTAL INCOME TAXES</b>	<b>1,275.0</b>	<b>1,275.0</b>	<b>1,235.0</b>	<b>(40.0)</b>	<b>14.2%</b>	<b>1,355.0</b>	<b>1,378.2</b>	<b>1,378.2</b>	<b>0.0</b>	<b>11.6%</b>
Oil and Gas School Tax	328.5	328.5	355.7	27.2	9.6%	360.7	360.7	373.1	12.4	4.9%
Oil Conservation Tax	16.7	16.7	17.9	1.2	9.1%	18.2	18.2	18.7	0.6	4.5%
Resources Excise Tax	10.0	10.0	10.0	-	6.4%	10.0	10.0	10.0	-	0.0%
Natural Gas Processors Tax	17.9	17.9	18.0	0.1	-55.4%	22.4	22.4	22.3	(0.1)	23.9%
<b>TOTAL SEVERANCE TAXES</b>	<b>373.1</b>	<b>373.1</b>	<b>401.6</b>	<b>28.5</b>	<b>2.8%</b>	<b>411.2</b>	<b>411.2</b>	<b>424.1</b>	<b>12.9</b>	<b>5.6%</b>
LICENSE FEES	52.0	52.0	51.7	(0.3)	2.8%	53.9	53.9	53.5	(0.4)	3.5%
LGPF Interest	445.2	445.2	445.2	-	1.9%	451.6	451.6	459.7	8.1	3.3%
STO Interest	16.2	16.2	14.7	(1.5)	-33.5%	20.2	20.2	20.8	0.6	41.5%
STPF Interest	184.6	184.6	184.6	-	-1.3%	180.9	180.9	183.4	2.5	-0.7%
<b>TOTAL INTEREST</b>	<b>646.0</b>	<b>646.0</b>	<b>644.5</b>	<b>(1.5)</b>	<b>-0.3%</b>	<b>652.7</b>	<b>652.7</b>	<b>663.9</b>	<b>11.2</b>	<b>3.0%</b>
Federal Mineral Leasing	368.2	368.2	411.7	43.5	15.9%	398.0	398.0	424.9	26.9	3.2%
State Land Office	58.8	58.8	53.7	(5.1)	-20.7%	43.9	43.9	43.3	(0.6)	-19.4%
<b>TOTAL RENTS &amp; ROYALTIES</b>	<b>427.0</b>	<b>427.0</b>	<b>465.4</b>	<b>38.4</b>	<b>10.0%</b>	<b>441.9</b>	<b>441.9</b>	<b>468.2</b>	<b>26.3</b>	<b>0.6%</b>
TRIBAL REVENUE SHARING	65.4	65.4	65.4	-	2.0%	67.2	67.2	70.4	3.2	7.6%
MISCELLANEOUS RECEIPTS	47.2	47.2	51.4	4.2	15.8%	43.9	43.9	43.1	(0.8)	-16.1%
REVERSIONS	40.0	40.0	50.0	10.0	25.0%	40.0	39.5	40.0	0.5	-20.0%
<b>TOTAL RECURRING</b>	<b>5,164.3</b>	<b>5,164.3</b>	<b>5,274.9</b>	<b>110.6</b>	<b>9.9%</b>	<b>5,389.7</b>	<b>5,413.2</b>	<b>5,533.4</b>	<b>120.2</b>	<b>4.9%</b>
TOTAL NON-RECURRING*	2.1	67.3	66.8	(0.5)	-86.1%	6.9	18.3	18.3	-	-72.6%
<b>GRAND TOTAL</b>	<b>5,166.4</b>	<b>5,231.6</b>	<b>5,341.7</b>	<b>110.1</b>	<b>1.2%</b>	<b>5,396.6</b>	<b>5,431.5</b>	<b>5,551.7</b>	<b>120.2</b>	<b>3.9%</b>

**APPENDIX TABLE 2**  
**Consensus General Fund Revenue Estimate**  
**July 2011**

	<b>FY13</b>					<b>FY14</b>					<b>FY15</b>				
	Dec. 10 Est.	Dec. 10 Est. Adj. for Leg.	July 2011 Est.	Change from Prior	% Change from FY12	Dec. 10 Est.	Dec. 10 Est. Adj. for Leg.	July 2011 Est.	Change from Prior	% Change from FY13	Dec. 10 Est.	Dec. 10 Est. Adj. for Leg.	July 2011 Est.	Change from Prior	% Change from FY14
Gross Receipts Tax	1,900.0	1,899.8	1,956.0	56.2	5.0%	1,995.00	1,994.8	2,058.0	63.2	5.2%	2,095.0	2,094.8	2,156.0	61.2	4.8%
Compensating Tax	71.2	71.2	74.4	3.2	5.5%	74.6	73.2	76.6	3.4	3.0%	79.1	77.7	77.9	0.2	1.7%
<b>TOTAL GENERAL SALES</b>	<b>1,971.2</b>	<b>1,971.0</b>	<b>2,030.4</b>	<b>59.4</b>	<b>5.1%</b>	<b>2,069.6</b>	<b>2,068.0</b>	<b>2,134.6</b>	<b>66.6</b>	<b>5.1%</b>	<b>2,174.1</b>	<b>2,172.4</b>	<b>2,233.9</b>	<b>61.5</b>	<b>4.7%</b>
Tobacco Taxes	77.8	77.8	84.3	6.5	-2.1%	76.8	76.8	82.8	6.0	-1.8%	75.9	75.9	81.6	5.7	-1.4%
Liquor Excise	26.4	26.4	25.6	(0.8)	1.6%	26.9	26.9	25.9	(1.0)	1.2%	27.2	27.2	26.2	(1.0)	1.2%
Insurance Taxes	147.3	147.3	147.3	-	3.6%	152.6	152.6	152.6	-	3.6%	158.1	158.1	158.1	-	3.6%
Fire Protection Fund Reversion	16.3	17.6	17.6	-	-5.9%	15.2	15.2	15.2	-	-13.6%	14.1	14.1	14.1	-	-7.2%
Motor Vehicle Excise	116.0	116.0	119.0	3.0	6.3%	120.4	120.4	125.0	4.6	5.0%	126.1	126.1	130.0	3.9	4.0%
Gaming Excise	67.2	67.2	67.8	0.6	0.9%	68.4	68.4	68.8	0.4	1.5%	69.6	69.6	69.9	0.3	1.6%
Leased Vehicle Surcharge	5.7	5.7	5.4	(0.3)	5.9%	5.6	5.6	5.6	-	3.7%	5.5	5.5	5.8	0.3	3.6%
Other	3.2	3.2	3.2	-	6.7%	3.3	3.3	3.3	-	3.1%	3.4	4.6	4.6	-	39.4%
<b>TOTAL SELECTIVE SALES</b>	<b>459.9</b>	<b>461.2</b>	<b>470.2</b>	<b>9.0</b>	<b>2.3%</b>	<b>469.2</b>	<b>469.2</b>	<b>479.2</b>	<b>10.0</b>	<b>1.9%</b>	<b>479.9</b>	<b>481.1</b>	<b>490.3</b>	<b>9.2</b>	<b>2.3%</b>
Personal Income Tax	1,135.0	1,134.7	1,134.7	-	3.6%	1,180.0	1,179.7	1,179.7	-	4.0%	1,225.0	1,224.7	1,224.7	-	3.8%
Corporate Income Tax	300.0	322.0	350.0	28.0	23.5%	340.0	365.6	400.0	34.4	14.3%	350.0	379.4	400.0	20.6	0.0%
<b>TOTAL INCOME TAXES</b>	<b>1,435.0</b>	<b>1,456.7</b>	<b>1,484.7</b>	<b>28.0</b>	<b>7.7%</b>	<b>1,520.0</b>	<b>1,545.3</b>	<b>1,579.7</b>	<b>34.4</b>	<b>6.4%</b>	<b>1,575.0</b>	<b>1,604.1</b>	<b>1,624.7</b>	<b>20.6</b>	<b>2.8%</b>
Oil and Gas School Tax	380.8	380.8	394.5	13.7	5.7%	384.1	384.1	396.4	12.3	0.5%	385.3	385.3	391.4	6.1	-1.3%
Oil Conservation Tax	19.1	19.1	19.7	0.6	5.3%	19.2	19.2	19.8	0.6	0.5%	19.3	19.3	19.6	0.3	-1.0%
Resources Excise Tax	10.0	10.0	10.0	-	0.0%	10.0	10.0	10.0	-	0.0%	10.0	10.0	10.0	-	0.0%
Natural Gas Processors Tax	21.0	21.0	23.2	2.2	4.0%	20.3	20.3	24.0	3.7	3.4%	24.6	24.6	23.8	(0.8)	-0.8%
<b>TOTAL SEVERANCE TAXES</b>	<b>430.8</b>	<b>430.8</b>	<b>447.4</b>	<b>16.6</b>	<b>5.5%</b>	<b>433.7</b>	<b>433.7</b>	<b>450.2</b>	<b>16.5</b>	<b>0.6%</b>	<b>439.3</b>	<b>439.3</b>	<b>444.8</b>	<b>5.5</b>	<b>-1.2%</b>
LICENSE FEES	57.3	57.3	55.5	(1.8)	3.7%	59.9	59.9	58.0	(1.9)	4.5%	61.9	61.9	60.7	(1.2)	4.7%
LGPF Interest	429.8	429.8	444.8	15.0	-3.2%	429.3	429.3	452.8	23.5	1.8%	460.3	460.3	494.1	33.8	9.1%
STO Interest	39.8	39.8	30.5	(9.3)	46.6%	52.0	52.0	33.9	(18.1)	11.1%	64.7	64.7	56.0	(8.7)	65.2%
STPF Interest	174.0	174.0	178.9	4.9	-2.5%	166.1	166.1	173.6	7.5	-3.0%	173.6	173.6	183.7	10.1	5.8%
<b>TOTAL INTEREST</b>	<b>643.6</b>	<b>643.6</b>	<b>654.2</b>	<b>10.6</b>	<b>-1.5%</b>	<b>647.4</b>	<b>647.4</b>	<b>660.3</b>	<b>12.9</b>	<b>0.9%</b>	<b>698.6</b>	<b>698.6</b>	<b>733.8</b>	<b>35.2</b>	<b>11.1%</b>
Federal Mineral Leasing	417.8	417.8	457.7	39.9	7.7%	420.6	420.6	474.5	53.9	3.7%	417.7	417.7	477.1	59.4	0.5%
State Land Office	42.8	42.8	45.0	2.2	3.9%	45.2	45.2	44.8	(0.4)	-0.4%	44.0	44.0	44.6	0.6	-0.4%
<b>TOTAL RENTS &amp; ROYALTIES</b>	<b>460.6</b>	<b>460.6</b>	<b>502.7</b>	<b>42.1</b>	<b>7.4%</b>	<b>465.8</b>	<b>465.8</b>	<b>519.3</b>	<b>53.5</b>	<b>3.3%</b>	<b>461.7</b>	<b>461.7</b>	<b>521.7</b>	<b>60.0</b>	<b>0.5%</b>
TRIBAL REVENUE SHARING	70.1	70.1	75.4	5.3	7.1%	73.0	73.0	78.2	5.2	3.7%	75.7	75.7	81.2	5.5	3.8%
MISCELLANEOUS RECEIPTS	46.7	46.7	41.8	(4.9)	-3.0%	48.8	48.8	40.7	(8.1)	-2.6%	50.5	50.5	39.7	(10.8)	-2.5%
REVERSIONS	40.0	39.5	40.0	0.5	0.0%	40.0	39.5	40.0	0.5	0.0%	40.0	39.5	40.0	0.5	0.0%
<b>TOTAL RECURRING</b>	<b>5,615.2</b>	<b>5,637.5</b>	<b>5,802.3</b>	<b>164.8</b>	<b>4.9%</b>	<b>5,827.4</b>	<b>5,850.6</b>	<b>6,040.2</b>	<b>189.6</b>	<b>4.1%</b>	<b>6,056.7</b>	<b>6,084.8</b>	<b>6,270.8</b>	<b>186.0</b>	<b>3.8%</b>
TOTAL NON-RECURRING*	(3.3)	(3.3)	(3.3)	-	-118.0%	(0.9)	(0.9)	(0.9)	-	-72.7%	-	-	-	-	-100.0%
<b>GRAND TOTAL</b>	<b>5,611.9</b>	<b>5,634.2</b>	<b>5,799.0</b>	<b>164.8</b>	<b>4.5%</b>	<b>5,826.5</b>	<b>5,849.7</b>	<b>6,039.3</b>	<b>189.6</b>	<b>4.1%</b>	<b>6,056.7</b>	<b>6,084.8</b>	<b>6,270.8</b>	<b>186.0</b>	<b>3.8%</b>