

## **Presentation to the New Mexico Legislative Finance Committee:**

### ***General Fund Consensus Revenue Estimates -- October 20, 2010***

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#### **Executive Summary**

Today's testimony presents General Fund revenue estimates recently developed by the Consensus Revenue Estimating Group (CREG) in October 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 July FY11 General Fund recurring revenue estimate downward by \$40 million. The October estimates for FY10 and FY11 do not reflect a substantially different view in aggregate of General Fund revenues from the July estimate, less than a .4% change. The FY12 "new money", FY12 recurring revenue v. FY11 recurring appropriations, is \$145.3 million.

The estimates presented today are likely to be changed by the Group in December for several reasons; First, final FY10 audited revenues and expenditures will not be available until December. Second, the December projections will be based on several additional months of actual revenue collections that will reveal whether the economy has indeed turned the corner. The discussion of the forecast that follows focuses primarily on FY11 and FY 12 revenues because estimates for FY13 and beyond are likely to be substantially impacted by actions of the new Governor and Legislature.

Changes in the General Fund revenue estimate resulting from the new projections are summarized in Table 1. As indicated in the table, revisions resulting from the current estimate range from \$21 million over the July estimates for FY10 to -\$154.3 million in FY 15 -- 2.5 percent less than the FY15 \$6.190 billion total. The recurring revenue estimate for FY12 is down -\$81.4million.

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
<b>Recurring Revenues (Dollars in millions)</b>						
July 2010 Forecast	4,798.8	5,148.3	5,429.5	5,695.5	5,924.4	6,190.4
October 2010 Forecast	4,818.4	5,108.3	5,348.1	5,594.0	5,815.6	6,036.1
Change from July Forecast	19.6	-40.0	-81.4	-101.5	-108.8	-154.3
<b>Total Revenues (Dollars in millions)</b>						
July 2010 Forecast	5,257.7	5,150.5	5,436.3	5,692.2	5,923.5	6,190.4
October 2010 Forecast	5,278.7	5,110.4	5,355.0	5,590.7	5,814.8	6,036.1
Change from July Forecast	21.0	-40.0	-81.4	-101.5	-108.8	-154.3
Approximate current year shortfall (before actions by the Governor and Legislature -- 5% reserves)*		-80.4				

Table 2 presents a summary of changes in projected FY10 revenues by revenue source. The FY10 estimate for gross receipts taxes dropped -\$10.8 million (-0.6 percent) from the July estimate and total selective sales taxes dropped -\$21.2 million or -5.5 percent. Weakness in gross receipts and selective sales taxes late in FY10 were important factors in the downward revision of the FY11 GF estimate. Net General Fund revenue reductions shown in the final row of Table 2 reflected \$28 million in reductions that were partially offset by \$15.5 million in increases -- primarily personal income taxes. Reversions increased by \$22.6 million -- an increase of 62.7 percent.

	Jul_10 Est	Oct_10 Est	Chg Jul to Oct	% Change
Total General Sales Taxes	1,687.2	1,676.4	(10.8)	-0.6%
Total Selective Sales Taxes	393.3	372.1	(21.2)	-5.4%
Personal Income Tax	945.0	975.9	30.9	3.3%
Corporate Income Tax	120.0	125.1	5.1	4.3%
Total Mineral Production Taxes	394.3	378.8	(15.5)	-3.9%
Total License Fees	52.0	50.3	(1.7)	-3.4%
Total Investment Income	643.9	646.3	2.4	0.4%
Total Rents, Royalties and Bonuses	421.6	423.0	1.4	0.3%
Total Miscellaneous Receipts	42.5	47.9	5.5	12.9%
Tribal Revenue Sharing	63.1	64.1	1.0	1.6%
Reversions	36.0	58.6	22.6	62.7%
Total Recurring Revenue	4,798.8	4,818.4	19.6	0.4%
Total Adjustments & Non-Recurring	458.9	460.3	1.4	0.3%
Transfer from Tax Stabilization Reserve	194.6	173.1	(21.5)	-11.1%
Use ARRA to supplant General Fund Expenditures	20.0	20.0	0.0	
<b>Grand Total Revenue</b>	<b>5,472.4</b>	<b>5,471.8</b>	<b>(0.5)</b>	<b>0.0%</b>

Table 3 presents the General Fund financial summary based on these current revenue estimates adjusted for legislation: including adjustments for the audited 2009, and preliminary/unaudited figures for 2010 and forecasts for 2011 and 2012. This summary shows the amount of the appropriation account shortfall. Section 14 of the General Appropriation Act of 2010 requires the Governor to proportionately reduce FY11 General Fund allotments to certain entities receiving General Fund appropriations when revenues and transfers to the General Fund are insufficient to cover appropriations. These include legislative agencies named in certain sections of House Bill 1 of the regular 2010 session and, except for the Human Services Department's Medicaid programs and the Department of Health's developmentally disabled services programs, agencies named in Section 4 of House Bill 2 of the 2<sup>nd</sup> special session in 2010. After the Governor's commitment to use \$20 million of ARRA/State fiscal Stabilization Fund dollars was applied, the reductions mandated by Section 14 and implemented subsequent to the July consensus revenue estimate translated to 3.2% across all remaining entities, or \$150.9 million. The reductions for public education were offset by \$65 million in federal jobs fund dollars.

Although recurring revenues are predicted to rebound, the state has prepared for continued slow growth in revenue and will take additional measures as necessary to control spending in FY11. Through its FY11 operating budget instructions and guidance on the "50 Percent Rule," which generally restricts a state agency's expenditures to one-half of its appropriation or approved budget for the first six-months of each odd-numbered fiscal year, the Governor and DFA have prepared agencies for the possibility of reduced revenue estimates for FY11. All agencies were asked to prepare for a potential 3 percent to 5 percent budget reduction mid-year. The CREG monitors economic conditions, actual receipts and regular reports provided by revenue generating agencies, governmental authorities, commissions and reports as required in statute.

The administration does not propose to adjust allotments downward based on this forecast because:

1. The preliminary unaudited FY10 actual revenue and appropriation numbers are not final
2. The calculation of the reductions must be approved by the Board of Finance; the next meeting is not scheduled until November 16
3. Based on the timeline, it's unlikely that allotments can be reduced prior to the date the next revenue estimate is due, only 6 weeks from now
4. The amount of the shortfall of \$18.5 million in the general fund is only 0.36% of recurring appropriations

5. The Administration's instructions to agencies to prepare for a 3%-5% reduction from their original appropriation during FY11 is still in place
6. Agencies will have sufficient time to implement a reduction on this scale if the December forecast indicates it necessary

Over time, there will be a need to restore general fund reserves to an appropriate level. Nearly \$80.3 million would be required to reestablish the 5% operating reserve margin; \$210.4 million for a 7.5 % margin, and about \$341 million to build a reserve margin of 10 percent. Based on the October revenue estimate presented here, FY11 is either \$18.5 million short and a Section 14 action to reduce appropriations will be required or a request for additional transfer authority will be made.

**Table 3**  
**General Fund Financial Summary**

October 2010 Consensus Revenue Estimate

(Dollars in Millions)

	Audited FY09	Preliminary Pre-audit FY10	Estimated FY11	Estimated FY12
<b>APPROPRIATION ACCOUNT</b>				
<b>REVENUE</b>				
Recurring Revenue	5,319.7	4,818.4	5,108.3	5,348.1
Nonrecurring Revenue	426.9	633.4	76.0	6.9
<b>TOTAL REVENUE</b>	<b>5,746.6</b>	<b>5,451.8</b>	<b>5,184.3</b>	<b>5,355.0</b>
<b>APPROPRIATIONS</b>				
Recurring Appropriations	6,035.1	5,358.0	5,202.8	5,348.1
Nonrecurring Appropriations	(80.1)	93.9	-	-
<b>TOTAL APPROPRIATIONS</b>	<b>5,955.1</b>	<b>5,451.8</b>	<b>5,202.8</b>	<b>5,348.1</b>
Transfer to/from General Fund Operating Reserve	(208.4)	(0.0)	(18.5)	6.9
<b>GENERAL FUND OPERATING RESERVE</b>				
Beginning Balance	247.2	37.5	36.2	16.2
Appropriations	(1.4)	(1.2)	(1.5)	-
Transfers In From Appropriation Account	-	-	-	6.9
Transfers Out To Appropriation Account	(208.4)	(0.0)	(18.5)	-
<b>Ending Balance</b>	<b>37.5</b>	<b>36.2</b>	<b>16.2</b>	<b>23.1</b>
Ending Balances as a Percentage of Prior Year Recurring Appropriation	0.7%	0.6%	0.3%	0.4%
<b>STATE SUPPORT RESERVE</b>				
Beginning Balance	1.0	1.0	1.0	1.0
<b>Ending Balance</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
<b>APPROPRIATION CONTINGENCY FUND</b>				
Beginning Balance, Excluding Education Reform	27.5	11.5	29.6	19.0
Expenditures	(24.3)	(9.9)	(16.0)	(16.0)
Revenue, Transfers and Reversions	8.3	28.0	5.3	5.3
<b>Ending Balance, Excluding Education Reform</b>	<b>11.5</b>	<b>29.6</b>	<b>19.0</b>	<b>8.3</b>
Education Reform, Beginning Balance	69.1	19.0	53.0	0.0
Transfers In	-	40.0	-	-
Transfers Out	(50.0)	(6.0)	(53.0)	-
<b>Ending Balance, Education Reform</b>	<b>19.0</b>	<b>53.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Ending Balance</b>	<b>30.6</b>	<b>82.7</b>	<b>19.0</b>	<b>8.4</b>
<b>TAX STABILIZATION RESERVE</b>				
Beginning Balance	254.4	198.7	25.6	0.7
Transfers Out	(55.7)	(173.1)	(24.9)	-
<b>Ending Balance</b>	<b>198.7</b>	<b>25.6</b>	<b>0.7</b>	<b>0.7</b>
Ending Balances as a Percentage of Prior Year Recurring Appropriation	3.5%	0.4%	0.0%	0.0%
<b>TOBACCO SETTLEMENT PERMANENT FUND</b>				
Beginning Balance	135.9	121.0	132.0	142.9
Transfers In, December 2008 Consensus Estimate	48.9	40.9	40.0	39.5
Transfers Out	(48.9)	(40.9)	(40.0)	(19.8)
Gains or (Losses)	(14.9)	11.1	10.8	11.7
<b>Ending Balance</b>	<b>121.0</b>	<b>132.0</b>	<b>142.9</b>	<b>174.3</b>
<b>TOTAL GENERAL FUND RESERVES</b>	<b>388.6</b>	<b>277.5</b>	<b>179.8</b>	<b>207.4</b>
Reserves as a Percentage of Current-year Recurring Appropriations	6.4%	5.2%	3.5%	3.9%

## **New Mexico Economic Outlook**

The Consensus Revenue Estimating Group gains substantial insight into the New Mexico economy through data provided by the New Mexico Workforce Solutions Department (NWSD), formerly called the Department of Labor), PIRA, Global Insight (GI), The University of New Mexico's Bureau of Business Research (UNM-BBER), REDYN and numerous public sources. These estimates are based upon the current economic conditions were updated October 12, 2010 and rely upon a broad range of employment, demographic and business data drawn primarily from Bureau of Labor Statistics (BLS), and Census sources. Forecasts of the state economies of the southwestern United States are also provided by the Federal Reserve Bank of Dallas, the Eastern New Mexico Universities and the Blue Chip Economic Forecast published by the University of Arizona. All of these sources are in agreement: decelerating growth observed in the 2010:2 and 2010:3 will not likely result in a double dip recession. Although GDP grew by less than 1% in FY10 and employment is not expected to grow at all in FY11 in New Mexico, personal income is expected to grow into 2011 and average between 2 and 3 percent growth through FY12.

The national recession according to the National Bureau of Economic Research (NBER) officially began in December 2007 and ended in June 2009. The recession was mitigated in large part by federal stimulus spending totaling more than \$1 trillion, about 7 percent of U.S. annual GDP. In comparison some of the most cash strapped countries in the world like Greece have annual deficits of 14 to 20 percent. Large federal deficits will likely impact earnings on state balances and costs of borrowing by the end of the forecast period, 2015.

Although new stimulus measures and tax incentives are always being considered by Congress, state and federal mid-term elections make it unlikely that new federal stimulus or jobs spending would take effect until late in FY11. All of the economic models used for this estimate show continuing federal deficits about \$1 trillion/year. Structural changes in taxes, tax expenditures, and/or entitlement spending will likely be required to avoid a \$20 trillion deficit predicted by 2020. Interest on the national debt could rise to \$1 trillion per year.

New Mexico is becoming a more diverse economy like the rest of the U.S. The New Mexico economy once dominated by agriculture and minerals industries is now more susceptible to changes in demands for services, technology and exports than in the past. Since 2008 at least, changes in New Mexico employment and personal income mirrors, changes in employment and personal income for the entire U.S. economy as shown in Figures 1 and 2. Although New Mexico appears to have been dragged down by the U.S. economy in 2008 and 2009, it is also forecast to improve in concert in 2011 and 2012. As the U.S. economy stabilizes

through FY12, New Mexico's economic performance is expected to exhibit greater independence from this pattern now being observed at the bottom of an extraordinary economic cycle.

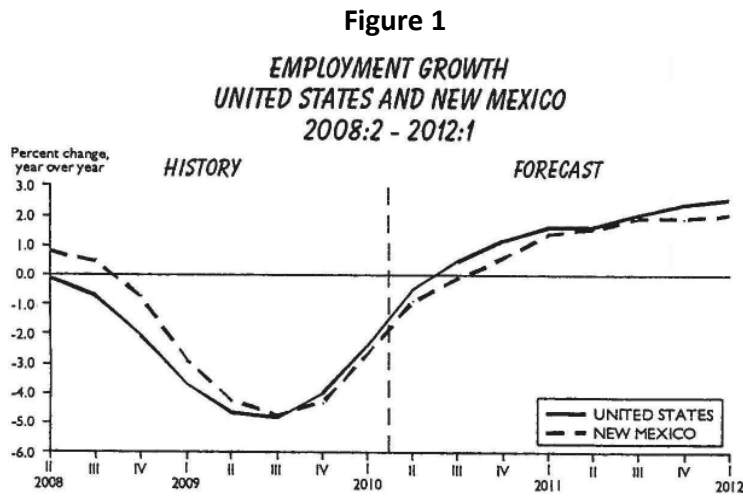


Figure S2-A from BBER, FOR-UNM, August 10, 2010

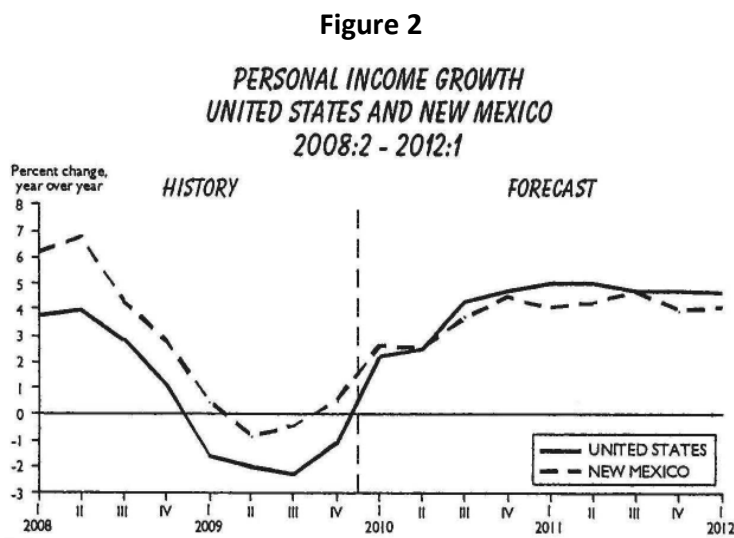


Figure S2-A from BBER, FOR-UNM, August 10, 2010

Table 4 compares the July 2010 forecast assumptions with the October outlook. Overall, New Mexico non-agricultural employment fell 3.3 percent in FY10 and no employment growth is forecast for all of FY11 which is down from 1 percent growth forecast in July. New Mexico personal income is expected to grow over the same period because of an increase in transfer payments and higher paying skilled jobs remaining at the bottom of the recession should experience salary growth. Inflation is expected to remain low -- 1.3

percent in FY11 and 1.8 percent in FY12. The unemployment rate will likely remain in excess of 9% through FY12.

**Table 4.**

October 2010	FY2010		FY2011		FY2012		FY2013		FY2014		FY2015	
	July 10	Oct. 10	July 10	Oct. 10	July 10	Oct. 10	July 10	Oct. 10	July 10	Oct. 10	July 10	Oct. 10
	Prelim.	Prelim.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.
<b>NATIONAL ECONOMIC INDICATORS</b>												
US Real GDP Growth (level annual avg, % yoy)*	0.8	0.7	3.0	2.2	2.9	2.7	3.0	2.9	2.7	2.7	3.0	3.3
US Inflation Rate (CPI, annual avg, % yoy)**	1.0	1.0	1.1	1.3	1.8	1.8	2.1	2.0	2.1	2.0	2.1	2.1
Federal Funds Rate (%)	0.15	0.15	0.16	0.14	0.87	0.33	3.31	2.70	3.59	3.50	4.67	4.17
<b>NEW MEXICO LABOR MARKET AND INCOME DATA</b>												
NM Non-Agricultural Employment Growth (%)	-3.2	-3.3	1.0	0.0	2.0	1.1	2.0	1.5	1.7	1.4	1.4	1.2
NM Personal Income Growth (%)***	-0.1	0.0	3.3	2.6	4.3	2.6	4.5	3.2	4.8	3.8	5.5	4.8
NM Private Wages & Salaries Growth (%)	-3.2	-4.0	3.1	2.1	4.6	3.4	4.6	4.1	4.4	4.1	4.2	4.0
<b>NEW MEXICO CRUDE OIL AND NATURAL GAS OUTLOOK</b>												
NM Oil Price (\$/barrel)	\$71.35	\$71.29	\$74.25	\$76.50	\$80.00	\$83.00	\$83.00	\$86.00	\$86.00	\$89.00	\$90.00	\$92.00
NM Taxable Oil Sales (million barrels)	61.8	62.7	61.1	63.3	60.4	64.0	59.8	64.6	59.1	65.2	58.4	65.9
NM Gas Price (\$ per thousand cubic feet)	\$5.12	\$5.18	\$5.60	\$5.00	\$6.00	\$5.75	\$6.45	\$6.30	\$6.75	\$6.55	\$7.00	\$6.80
NM Taxable Gas Sales (billion cubic feet)	1,285	1,285	1,234	1,234	1,197	1,197	1,161	1,161	1,126	1,126	1,092	1,092

\* real GDP base 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.

Sources: October 2010 economic indicators based on October (7-9) IHS Global Insight (GI, national), August final FOR-UNM, BEA, BLS (state, July GI), energy forecast on September/October PIRA, NYMEX, Global Insight and DOE/EIA.

July 2010 economic indicators based on July (6-9) IHS Global Insight (GI, national), May final FOR-UNM, BEA, BLS (state, May GI), energy forecast on June/July PIRA, NYMEX, Global Insight and DOE/EIA.

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## **Federal Budget Actions**

Although this estimate focuses on the General Fund, the greatest proportion of State spending comes from federal sources. During the last year, the federal government extended additional assistance to the states especially in Medicaid and education. Federal spending plans were critically important to funding New Mexico programmatic obligations in FY10.

On September 29, 2010, the House and Senate approved a continuing resolution (CR), H.R. 3081, to fund the government through December 3, 2010. The president signed the bill on September 30. Passage of the resolution avoided a government shutdown. The bill provides funding at a rate that is \$8.2 billion below the FY10 level, primarily due to reductions for Census programs and the Defense Base Closure and Realignment Commission (BRAC). The bill also continues several programs that were set to expire including the authority of the Federal Emergency Management Agency to provide technical and financial assistance

to states for pre-disaster hazard mitigation; continuation of a program under the Child Nutrition Act which allows for school feeding programs; and an extension of the TANF block grant and Child Care Entitlement to states programs at their current funding levels. Specifically, the CR extends TANF contingency funds until FY12, and appropriates \$506 million in FY11 and \$612 million in FY12. However, the law does not extend the TANF Emergency Fund included in the American Recovery and Reinvestment Act (ARRA). In very general terms, New Mexico often receives about 1% of these large Federal appropriations, an amount proportional to the state's population in the country.

Congress has yet to enact any of the 12 appropriations bills to fund the federal government. However, any FY11 appropriations bills enacted before December 3, 2010, will supersede the CR for programs affected. The continuing resolution added \$337.7 million to Los Alamos National Laboratory (LANL) for Nuclear Weapons research in FY11. Additional increases for Sandia National Laboratory and LANL for FY11 were requested by the President.

### **FY11 through FY15 Revenue Forecasts**

The general revenue outlook has not changed substantially from July 2010. The changes are summarized by category in Table 5 below.

**Table 5: Summary of GF Revenue Estimates**

General Fund  
Consensus Revenue Estimate  
October 2010

	FY 2010				FY 2011				FY 2012			
	Jul-10 Estimate	Oct-10 Estimate	Chg from Prev Est	% Chng From FY 2009	Jul-10 Estimate	Oct-10 Estimate	Chg from Prev Est	% Chng From FY 2010	Jul-10 Estimate	Oct-10 Estimate	Chg from Prev Est	% Chng From FY 2011
Gross Receipts Tax	1,636.0	1,625.5	(10.5)	-11%	1,729.4	1,710.0	(19.4)	5%	1,834.8	1,778.4	(56.4)	4%
Compensating Tax	51.2	50.9	(0.3)	-27%	65.4	63.9	(1.5)	26%	69.0	67.7	(1.3)	6%
<b>TOTAL GENERAL SALES</b>	<b>1,687.2</b>	<b>1,676.4</b>	<b>(10.8)</b>	<b>-12%</b>	<b>1,794.8</b>	<b>1,773.9</b>	<b>(20.9)</b>	<b>6%</b>	<b>1,903.8</b>	<b>1,846.1</b>	<b>(57.7)</b>	<b>4%</b>
Tobacco Taxes	45.1	45.7	0.6	-8%	78.9	79.2	0.3	73%	79.0	77.5	(1.5)	-2%
Liquor Excise	25.8	25.6	(0.2)	-1%	26.7	26.3	(0.4)	3%	27.0	26.5	(0.5)	1%
Insurance Taxes	133.9	129.6	(4.3)	6%	137.3	137.3	0.0	6%	142.2	142.2	0.0	4%
Fire Protection Fund	21.7	5.0	(16.7)	-84%	24.1	18.3	(5.8)	266%	22.7	17.4	(5.3)	-5%
Motor Vehicle Excise	91.8	92.3	0.5	-8%	99.0	99.4	0.4	8%	112.0	108.6	(3.4)	9%
Gaming Excise	66.5	65.1	(1.4)	-6%	64.9	64.9	0.0	0%	66.0	66.0	(0.0)	2%
Leased Vehicle Surcharge	5.6	5.7	0.1	16%	5.8	5.8	0.0	3%	5.6	5.6	(0.0)	-4%
Other	2.9	3.2	0.3	38%	3.0	2.9	0.1	-10%	3.0	3.0	(0.0)	5%
<b>TOTAL SELECTIVE SALES</b>	<b>393.3</b>	<b>372.1</b>	<b>(21.2)</b>	<b>-8%</b>	<b>439.7</b>	<b>434.1</b>	<b>(5.4)</b>	<b>17%</b>	<b>457.6</b>	<b>446.8</b>	<b>(10.7)</b>	<b>3%</b>
Personal Income Tax	945.0	975.9	30.9	2%	1,079.0	1,067.0	(12.0)	9%	1,128.0	1,108.0	(20.0)	4%
Corporate Income Tax	120.0	125.1	5.1	-23%	175.7	220.0	44.3	76%	230.2	260.0	29.8	18%
Estate Tax	0.0	0.0	0.0	-100%	0.0	0.0	0.0		0.0	0.0	0.0	
<b>TOTAL INCOME TAXES</b>	<b>1,065.0</b>	<b>1,101.0</b>	<b>36.0</b>	<b>-2%</b>	<b>1,254.7</b>	<b>1,287.0</b>	<b>32.3</b>	<b>17%</b>	<b>1,358.2</b>	<b>1,368.0</b>	<b>9.8</b>	<b>6%</b>
Oil and Gas School Tax	328.0	313.2	(14.8)	-15%	340.0	325.3	(14.7)	4%	355.4	359.8	4.4	11%
Oil Conservation Tax	15.4	15.7	0.3	-14%	16.2	16.8	0.6	7%	18.0	18.5	0.5	10%
Resources Excise Tax	10.0	9.4	(0.6)	-17%	10.0	10.0	0.0	7%	10.0	10.0	0.0	0%
Natural Gas Processors Tax	40.9	40.4	(0.5)	0%	17.9	17.9	0.0	-56%	23.1	22.4	(0.7)	25%
<b>TOTAL SEVERANCE TAXES</b>	<b>394.3</b>	<b>378.8</b>	<b>(15.5)</b>	<b>-14%</b>	<b>384.1</b>	<b>370.0</b>	<b>(14.1)</b>	<b>-2%</b>	<b>406.5</b>	<b>410.7</b>	<b>4.2</b>	<b>11%</b>
LICENSE FEES	52.0	50.3	(1.7)	0%	54.6	52.0	(2.6)	3%	55.4	53.9	(1.5)	4%
LGPF Interest	436.5	437.1	0.6	1%	445.2	445.2	0.0	2%	451.6	451.6	0.0	1%
STO Interest	20.3	22.1	1.8	-67%	17.9	19.0	1.1	-14%	21.5	21.5	0.0	13%
STPF Interest	187.1	187.1	(0.0)	-2%	184.6	184.6	0.0	-1%	180.9	180.9	0.0	-2%
<b>TOTAL INTEREST</b>	<b>643.9</b>	<b>646.3</b>	<b>2.4</b>	<b>-7%</b>	<b>647.7</b>	<b>648.8</b>	<b>1.1</b>	<b>0%</b>	<b>654.0</b>	<b>654.0</b>	<b>0.0</b>	<b>1%</b>
Federal Mineral Leasing	353.9	355.3	1.4	-30%	378.0	347.3	(30.7)	-2%	397.0	371.2	(25.8)	7%
State Land Office	67.7	67.7	0.0	86%	48.7	48.7	0.0	-28%	43.9	43.9	0.0	-10%
<b>TOTAL RENTS &amp; ROYALTIES</b>	<b>421.6</b>	<b>423.0</b>	<b>1.4</b>	<b>-22%</b>	<b>426.7</b>	<b>396.0</b>	<b>(30.7)</b>	<b>-6%</b>	<b>440.9</b>	<b>415.1</b>	<b>(25.8)</b>	<b>5%</b>
TRIBAL REVENUE SHARING	63.1	64.1	1.0	-2%	63.0	65.4	2.4	2%	64.9	67.2	2.3	3%
MISCELLANEOUS RECEIPTS	42.5	47.9	5.5	12%	49.2	47.1	(2.0)	-2%	45.9	43.9	(2.0)	-7%
REVERSIONS	36.0	58.6	22.6	2%	34.0	34.0	0.0	-42%	42.4	42.4	0.0	25%
<b>TOTAL RECURRING</b>	<b>4,798.8</b>	<b>4,818.4</b>	<b>19.6</b>	<b>-9%</b>	<b>5,148.3</b>	<b>5,108.4</b>	<b>(39.8)</b>	<b>6%</b>	<b>5,429.5</b>	<b>5,348.1</b>	<b>(81.4)</b>	<b>5%</b>
<b>TOTAL NON_RECURRING</b>	<b>458.9</b>	<b>460.3</b>	<b>1.4</b>		<b>2.1</b>	<b>2.1</b>	<b>-</b>	<b>-100%</b>	<b>6.9</b>	<b>6.9</b>	<b>-</b>	<b>221%</b>
<b>GRAND TOTAL</b>	<b>5,257.7</b>	<b>5,278.7</b>	<b>21.0</b>	<b>-5%</b>	<b>5,150.5</b>	<b>5,110.5</b>	<b>(39.8)</b>	<b>-3%</b>	<b>5,436.3</b>	<b>5,355.0</b>	<b>(81.4)</b>	<b>5%</b>

APPENDIX TABLE 2

10/19/2010

**Table 5: Summary of GF Revenue Estimates (continued)**

General Fund  
Consensus Revenue Estimate  
October 2010

	FY 2013				FY 2014				FY2015			
	Jul-10 Estimate	Oct-10 Estimate	Chg from Prev Est	% Chng From FY 2012	Jul-10 Estimate	Oct-10 Estimate	Chg from Prev Est	% Chng From FY 2013	Jul-10 Estimate	Oct-10 Estimate	Chg from Prev Est	% Chng From FY 2014
Gross Receipts Tax	1,949.8	1,883.4	(66.4)	6%	2,058.2	1,980.0	(78.2)	5%	2,161.5	2,062.8	(98.7)	4%
Compensating Tax	72.4	71.2	(1.2)	5%	75.1	73.8	(1.3)	4%	77.6	76.6	(1.0)	4%
<b>TOTAL GENERAL SALES</b>	<b>2,022.2</b>	<b>1,954.6</b>	<b>(67.6)</b>	<b>6%</b>	<b>2,133.3</b>	<b>2,053.8</b>	<b>(79.5)</b>	<b>5%</b>	<b>2,239.1</b>	<b>2,139.4</b>	<b>(99.7)</b>	<b>4%</b>
Tobacco Taxes	78.9	76.6	(2.3)	-1%	79.0	75.6	(3.4)	-1%	78.7	74.6	(4.1)	-1%
Liquor Excise	27.3	26.8	(0.6)	1%	27.6	26.9	(0.7)	0%	28.1	27.0	(1.1)	0%
Insurance Taxes	147.3	147.3	0.0	4%	152.6	152.6	0.0	4%	158.1	158.1	0.0	4%
Fire Protection Fund	21.4	16.3	(5.1)	-6%	20.1	15.2	(4.9)	-7%	18.9	14.1	(4.8)	-7%
Motor Vehicle Excise	120.9	117.4	(3.5)	8%	125.4	121.6	(3.8)	4%	131.6	127.0	(4.6)	4%
Gaming Excise	67.2	67.2	0.0	2%	68.4	68.4	0.0	2%	69.6	69.6	0.0	2%
Leased Vehicle Surcharge	5.7	5.7	0.0	1%	5.6	5.6	0.0	-1%	5.5	5.5	0.0	-2%
Other	3.2	3.1	(0.1)	2%	3.3	3.2	(0.1)	4%	3.4	3.3	(0.2)	3%
<b>TOTAL SELECTIVE SALES</b>	<b>471.8</b>	<b>460.4</b>	<b>(11.6)</b>	<b>3%</b>	<b>482.0</b>	<b>469.1</b>	<b>(12.9)</b>	<b>2%</b>	<b>493.9</b>	<b>479.2</b>	<b>(14.8)</b>	<b>2%</b>
Personal Income Tax	1,176.0	1,149.0	(27.0)	4%	1,228.0	1,192.0	(36.0)	4%	1,279.0	1,239.0	(40.0)	4%
Corporate Income Tax	289.5	300.0	10.5	15%	320.1	340.0	19.9	13%	350.1	350.0	(0.1)	3%
Estate Tax	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0	
<b>TOTAL INCOME TAXES</b>	<b>1,465.5</b>	<b>1,449.0</b>	<b>(16.5)</b>	<b>6%</b>	<b>1,548.1</b>	<b>1,532.0</b>	<b>(16.1)</b>	<b>6%</b>	<b>1,629.1</b>	<b>1,589.0</b>	<b>(40.1)</b>	<b>4%</b>
Oil and Gas School Tax	368.6	380.3	11.7	6%	375.7	389.7	14.0	2%	382.0	398.5	16.7	2%
Oil Conservation Tax	18.6	19.4	0.8	5%	18.9	19.9	1.0	3%	19.3	20.4	1.1	3%
Resources Excise Tax	10.0	10.0	0.0	0%	10.0	10.0	0.0	0%	10.0	10.0	0.0	0%
Natural Gas Processors Tax	23.0	21.0	(2.0)	-6%	22.3	20.3	(2.0)	-3%	25.2	24.6	(0.6)	21%
<b>TOTAL SEVERANCE TAXES</b>	<b>420.2</b>	<b>430.7</b>	<b>10.5</b>	<b>5%</b>	<b>426.9</b>	<b>439.9</b>	<b>13.0</b>	<b>2%</b>	<b>436.5</b>	<b>453.5</b>	<b>17.2</b>	<b>3%</b>
LICENSE FEES	58.8	57.3	(1.5)	6%	61.4	59.9	(1.5)	4%	63.4	61.9	(1.5)	3%
LGPF Interest	429.8	429.8	0.0	-5%	429.3	429.3	0.0	0%	460.3	460.3	0.0	7%
STO Interest	33.1	33.1	0.0	54%	39.1	45.0	5.9	36%	46.7	50.0	3.3	11%
STPF Interest	174.0	174.0	0.0	-4%	166.1	166.1	0.0	-5%	173.6	173.6	0.0	5%
<b>TOTAL INTEREST</b>	<b>636.9</b>	<b>636.9</b>	<b>0.0</b>	<b>-3%</b>	<b>634.5</b>	<b>640.4</b>	<b>5.9</b>	<b>1%</b>	<b>680.6</b>	<b>683.9</b>	<b>3.3</b>	<b>7%</b>
Federal Mineral Leasing	418.0	401.8	(16.2)	8%	427.0	408.5	(18.5)	2%	431.0	412.6	(18.4)	1%
State Land Office	42.8	42.8	0.0	-3%	45.2	45.2	0.0	6%	44.0	44.0	0.0	-3%
<b>TOTAL RENTS &amp; ROYALTIES</b>	<b>460.8</b>	<b>444.6</b>	<b>(16.2)</b>	<b>7%</b>	<b>472.2</b>	<b>453.7</b>	<b>(18.5)</b>	<b>2%</b>	<b>475.0</b>	<b>456.6</b>	<b>(18.4)</b>	<b>1%</b>
TRIBAL REVENUE SHARING	66.9	70.1	3.2	4%	70.2	73.0	2.8	4%	73.8	75.7	1.9	4%
MISCELLANEOUS RECEIPTS	48.7	46.7	(2.0)	6%	50.8	48.8	(2.0)	5%	52.5	50.5	(2.0)	4%
REVERSIONS	43.7	43.7	0.0	3%	45.1	45.1	0.0	3%	46.5	46.5	0.0	3%
<b>TOTAL RECURRING</b>	<b>5,695.5</b>	<b>5,594.0</b>	<b>(101.7)</b>	<b>5%</b>	<b>5,924.4</b>	<b>5,815.6</b>	<b>(108.9)</b>	<b>4%</b>	<b>6,190.4</b>	<b>6,036.1</b>	<b>(154.0)</b>	<b>4%</b>
TOTAL NON_RECURRING	(3.3)	(3.3)	-	-149%	(0.9)	(0.9)	-	-73%	0.0	-	-	
<b>GRAND TOTAL</b>	<b>5,692.2</b>	<b>5,590.7</b>	<b>(101.7)</b>	<b>4%</b>	<b>5,923.5</b>	<b>5,814.8</b>	<b>(108.9)</b>	<b>4%</b>	<b>6,190.4</b>	<b>6,036.1</b>	<b>(154.0)</b>	<b>4%</b>

APPENDIX TABLE 2

10/19/2010

## FY11 through FY15 Revenue Forecasts Discussion

### 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. In FY09, these tax revenues fell by 1.1 percent year-over-year. Figure 3 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 began to slow last winter and finally experienced positive economic growth in the last few months for the first time in over a year. In FY10, the overall gross receipts and compensating tax collections are dropped by 10.7% from FY09, the largest drop in decades; this is 12% below FY08's peak level. Construction activity has continued a trend of double digit declines.

**Figure 3**

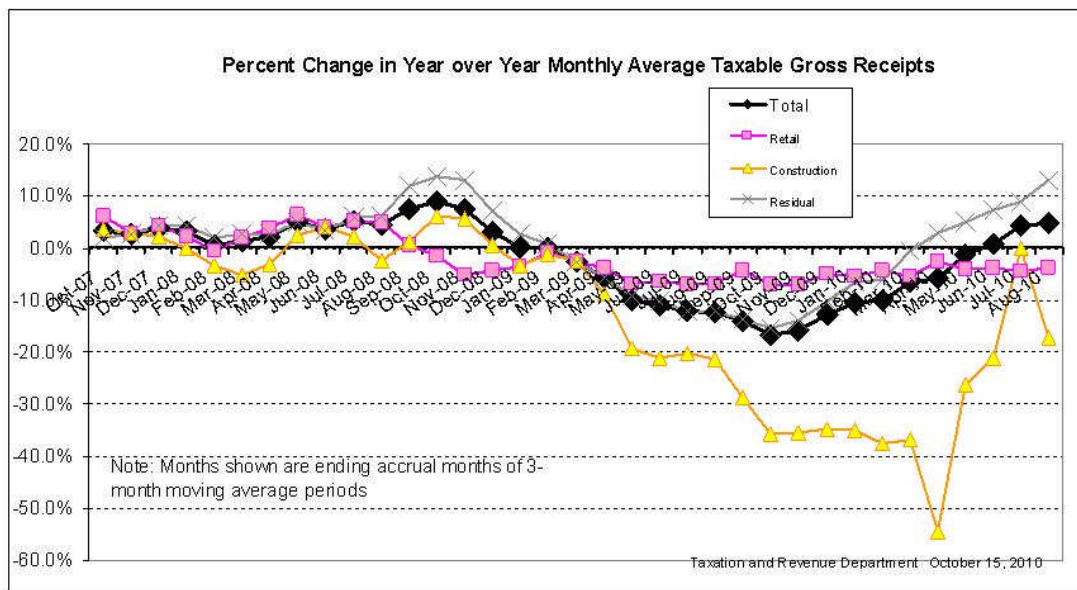


Figure 4 illustrates the huge negative effect of a drop in construction activity, which was one of the biggest drivers of GRT growth in FY07. In FY08 construction activity slowed but in FY09 construction became a significant drag on the taxable sales, helping lower GRT revenues lower year-over-year for the first time in decades. In FY10 construction fell by over 30% year-over-year, an unprecedented drop—a reflection of the magnitude of the national recession. The contraction of the construction sector is changing the composi-

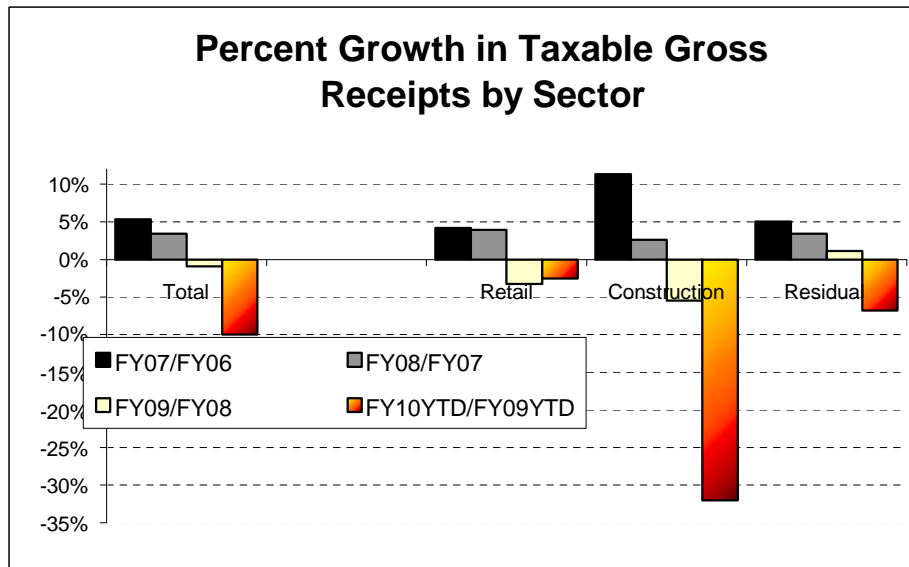


Figure 4 -- % Growth in FY taxable Gross Receipts

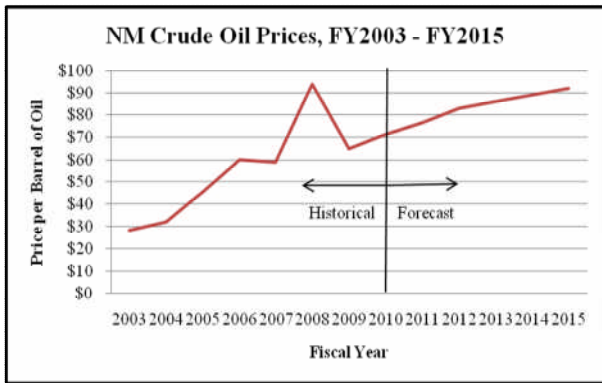
tion of the gross receipts tax revenue base. Revenue from the construction sector made up almost one-sixth of total gross receipts in the past but in recent years, it has been contributing as little as one-twelfth of General Fund revenues.

Revenue growth is expected to return albeit slowly, during FY11. The base level is expected to grow by 1.3 percent and will be augmented by the recently enacted 1/8<sup>th</sup> rate increase. Overall revenue growth is therefore expected to grow by 4.6 percent. More robust growth is expected to return in FY12 and FY13, at 4 percent and 5.9 percent respectively, the moderating growth at 5.1 percent in FY14 and 4.2 percent in FY15. Even with the recently passed tax increase, gross receipts tax revenue is not expected to surpass its FY08 levels until FY13.

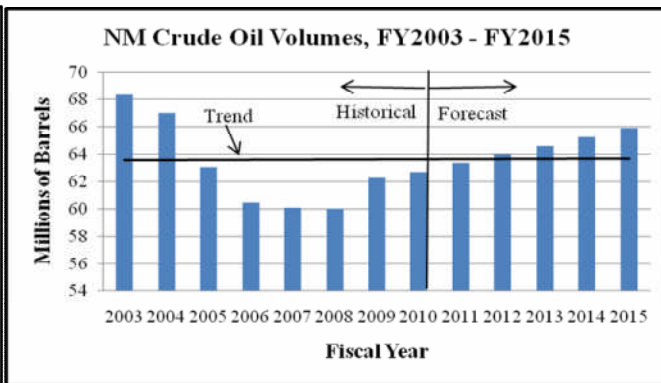
### Oil and Natural Gas Revenues

Crude oil prices and volumes over the past eight fiscal years are shown in Figures 5 and 6, along with forecasts for the next five years. The forecasted decline/growth rates reflected in these graphs are shown in Table 6.

**Figure 5 – NM Oil Prices**

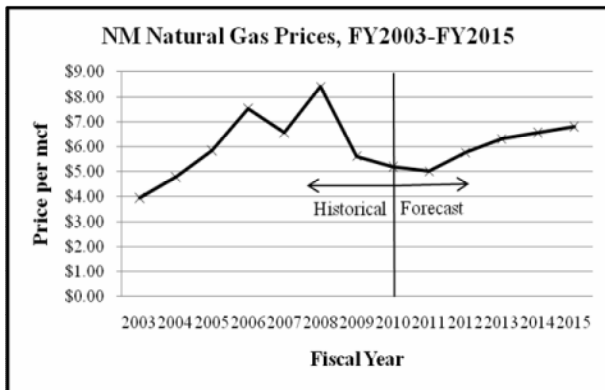


**Figure 6 –NM Oil Volumes**

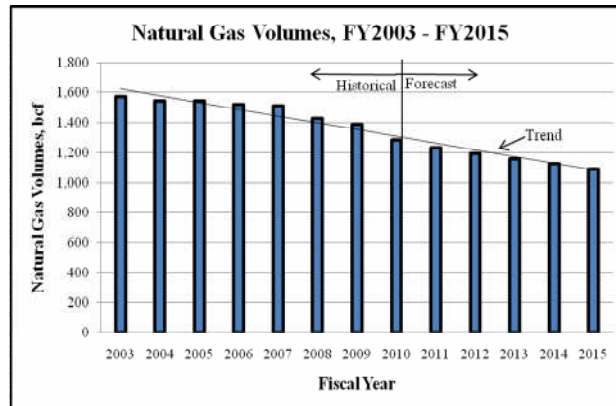


Natural Gas prices and volumes over the past eight fiscal years are shown in Figures 7 and 8, along with forecasts for the next five years. The forecasted decline/growth rates reflected in these graphs are also shown in Table 6.

**Figure 7 – NM Natural Gas Prices**



**Figure 8 – NM Natural Gas Volumes**



**Table 6 - Forecasted Decline/Growth Rates in Crude Oil and Natural Gas Prices and Volumes**

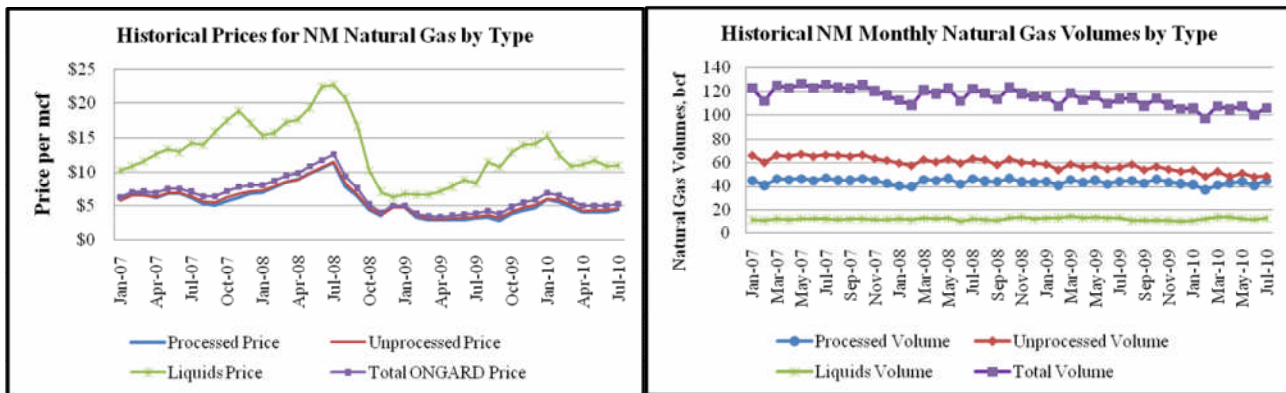
Forecasted Decline/Growth Rates						
Fiscal Year	FY10	FY11	FY12	FY13	FY14	FY15
NM Natural Gas Price	-7.7%	-3.5%	15.0%	9.6%	4.0%	3.8%
NM Crude Oil Price	9.9%	7.3%	8.5%	3.6%	3.5%	3.4%
NM Natural Gas Volume	-7.5%	-4.0%	-3.0%	-3.0%	-3.0%	-3.0%
NM Crude Oil Volume	0.7%	1.0%	1.0%	1.0%	1.0%	1.0%

Over the past few years, the composition of natural gas produced in New Mexico has changed, along with associated prices. As a result of relatively low market prices for dry gas, producers have shifted their focus to the production of crude oil and liquids. Historical monthly prices from January 2007 through July 2010 for processed natural gas, unprocessed natural gas and liquids, along with the weighted average price reported for all natural gas are shown in Figure 9. Liquids receive a significant premium over processed and unprocessed natural gas. The change in the composition of natural gas

produced in New Mexico is shown in Figure 10. The decline in overall natural gas production coincides with a decline in unprocessed natural gas, which is unprocessed because it is dry gas.

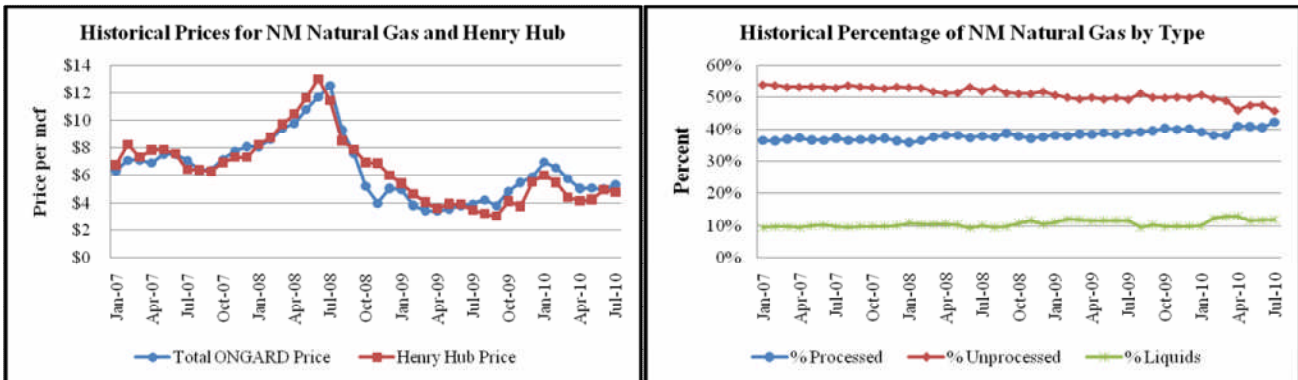
**Figure 9 - NM Natural Gas Prices by Type of Gas**

**Figure 10 - NM Natural Gas Volumes by Type**



The higher liquids content of natural gas produced in New Mexico resulted in a weighted average premium for New Mexico natural gas over reported Henry Hub prices for dry gas in FY10. A comparison of weighted average prices for all New Mexico natural gas and Henry Hub dry gas is shown in Figure 11. During fiscal year 2010, the weighted average premium for liquids over Henry Hub dry gas was \$7.61 per mcf. The weighted average premium for all New Mexico natural gas over Henry Hub was \$0.84 per mcf. Figure 10 shows that the percentage of all New Mexico natural gas that is unprocessed has steadily declined from 54.1 percent in January 2007 to 45.8 percent in July 2010. During this same time period, the percentage of all New Mexico natural gas that is processed has steadily increased from 36.5 percent to 42.3 percent. This indicates that producers are increasingly reporting at the tailgate of the liquids extraction plant, whereas before they largely reported at a point prior to this. During this same time period, the percentage of all New Mexico natural gas that is liquids has fluctuated from a low of 9.3 percent in June 2008 to a high of 13.0 percent in April 2010. The higher and lower percentages coincide with higher and lower weighted average premiums for New Mexico natural gas over Henry Hub dry gas.

**Figure 11 - NM and Henry Hub Natural Gas Prices Figure 12 - Percentage of NM Natural Gas by Type**



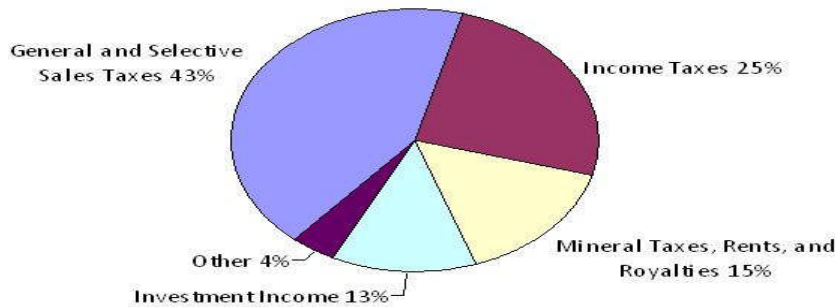
In FY10, 64.0 percent of the natural gas that was produced in New Mexico was from the San Juan Basin, 34.0 percent from the Permian Basin and 2.0 percent from the Raton Basin. The percentage of production in the Permian Basin has been trending upward because of its Avalon, Leonard and Bone Springs oil shale plays with high content of natural gas liquids and oil condensates. By land type, 64.4 percent was produced on federal lands, 16.6 percent on State lands, 15.7 percent on private lands and 3.3 percent on Indian lands.

During FY10, monthly natural gas volumes averaged 107.1 billion cubic feet (bcf) compared to 115.9 bcf in FY09. The consensus forecast group forecasts final production of 1,285.3 billion cubic feet (bcf) for FY10.

During FY10, monthly oil volumes averaged 5.22 million barrels compared to 5.19 million barrels in FY09. The consensus forecast group forecasts final production of 62.7 million barrels for FY10.

FY10 collections for the Oil and Gas Emergency School Tax are expected to be \$13.4 million less than predicted in the July 2010 forecast. The forecast for total General Fund revenues from oil, natural gas and hard minerals in FY10 is expected to be \$14.0 million lower than the July 2010 forecast. Figure 13 shows the percentage share of the General Fund from these revenues, which include the Oil and Gas Emergency School Tax; oil, natural gas and coal conservation taxes; Resource Excise Tax; Natural Gas Processors Tax; Federal Mineral Leasing revenues and State Land Office revenues. After peaking at over 25 percent of the General Fund in FY08, the consensus forecast group is expecting the OGAS share to moderate to a more typical 15% for FY10 through FY15.

**Figure 13**



### **Personal Income Tax**

Personal income taxes comprise approximately 20% of General Fund recurring revenues. The recession has negatively affected personal income tax revenues in a variety of ways, including slowing personal income growth, reducing capital gains and increasing unemployment levels. Since the July 2010 forecast, the economy has continued to weaken, reducing personal income growth in nationally and in New Mexico. FY10 revenues are now expected to be only about 0.6% higher than they were in FY09. However, in FY11, the personal income tax revenue is expected to grow about 10.6% over the FY10 revenue to about \$1,067 million. For the fiscal years 2012, 2013, 2014 and 2015, the personal income tax revenues are now expected to be \$1,108, \$1,149, \$1,192 and \$1,239 million, respectively.

### **Corporate Income Tax**

While the final audited number for FY10 is not available yet, the corporate income tax revenue for is now expected to be approximately \$114.9 million -- about \$5.1 million down from the July 2010 forecast.

In order to estimate the revenue for the subsequent years, the gross New Mexico Corporate income tax revenues are forecasted by TRD based on estimates of federal corporate profits and federal corporate tax receipts from Congressional Budget Office (CBO) and Global Insight (GI). LFC analysts employed a cash flow model to generate results that are similar to those of TRD. Based on federal data,

the corporate income tax revenues are generally expected to rise considerably from their FY10 level. Film credits (included in the corporate income tax estimates) are assumed to remain flat at about \$65 million in FY11 and are expected to grow at about 5% year over year thereafter. After adjusting for film credits, refunds and settlements, the net corporate income tax revenues for fiscal years 2011, 2012, 2013, 2014, and 2015 are now expected to be \$220.0, \$260.0, \$300.0, \$340.0 and \$350.0 million respectively,

### **Selective Excises Taxes**

Selective excise taxes, particularly the motor vehicle excise tax, are sensitive measures of consumer sentiment. These taxes are expected to decline by 7.0 percent year over year in FY10, primarily due to large declines in the Fire Protection Fund, motor vehicle excise, and gaming revenues, only partially offset by a large increase in insurance revenues. For FY11, insurance revenues are expected to continue to grow, while motor vehicle excise and gaming revenues will also grow, but from the lower FY10 base.

Excise taxes are collected on the sale of motor vehicles. The recession nationally as well as here in New Mexico has strongly affected the automotive industry. Revenue peaked in FY07 at \$131.3 million. Motor vehicle excise tax collections are expected to fall to \$92.2 million in FY10, declining approximately \$39 million or 30% in only three years. The consensus group does not expect the FY07 level will be reached again before FY15.

### **Reversions**

Over the past six years, reversions have averaged about \$41 million per year to the General Fund and about \$5.0 million to the Appropriation Contingency Fund. However, the usual pattern has been for agencies to wait until after their agency audit has been completed to remit the amount of reversion calculated by the auditors. On average, 27% of reversions from any particular fiscal year are remitted and booked timely – by September 30 of the fiscal year following the allotment. Approximately 57% of reversions are remitted with a one-year lag, as agencies remit reversions pursuant to completed audits. These additional amounts of revenue were scored as recurring because of the difficulty of determining whether a particular reversion is recurring or nonrecurring, timely or delinquent. Regular reversions for FY10 are estimated at \$58.6 million up by \$22.6 million from the July estimate. Regular reversions in FY11-15 are expected to return to historical levels between \$30 and \$40 million annually.

## FY10 Solvency

For the agencies whose budget reductions were vetoed in Laws 2009, Chapter 5, 1<sup>st</sup> Special Session, but for which the Governor ordered a reduction of expenditures in Executive Order 2009-044, the Administration established within each affected state agency's operating fund, a liability to the General Fund and a corresponding expenditure. The savings expected from the executive order total \$87.6 million, with \$8.6 million coming from five furlough days taken by executive employees. These liabilities were discharged upon the reversion of these savings to the General Fund in September. These reversions were in addition to the \$58 million in regular reversions included in this report.

Another component of the FY10 solvency package includes Laws 2010, Chapter 105, entitled Capital Outlay Reversions for Solvency. Upon gubernatorial action on the bill, the Department of Finance and Administration estimated it would provide \$141.1 million in nonrecurring transfers to the General Fund. However, valid commitments and expenditures made prior to the effective date of the legislation and other provisions of the bill lowered the transfers by \$9.7 million to \$131.4 million. Amounts shown as "Transfer from Tax Stabilization Reserve" and "Transfer from Appropriation Contingency Fund" have been calculated to account for the transfer authority granted by legislation enacted in the October 2009 special session and the General Appropriation Act of 2010.

**Table 7-- Detail of Adjustments and Nonrecurring Revenue for FY10 and FY11**

	FY10			FY11		
	Jul-10	Oct-10	Chg from	Jul-10	Oct-10	Chg from
			Prev Est			Prev Est
<b>October 2009 Special Session:</b>						
Chapter 4, 1st SS, 2009/HB 16 (reversions)	0.7	0.7	-	-	-	-
Chapter 7, 1st SS, 2009/SB 29 (reversions)	109.0	109.0	-	-	-	-
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	-	-	-	-
Executive Order 2009-044, Expenditure Reductions (reversions)	79.0	79.0	-	-	-	-
Executive Order 2009-044, Furloughs (reversions)	8.6	8.6	-	-	-	-
<b>January 2010 Session/March 2010 Special Session:</b>						
Chapter 105, 2009/SB 182, Capital Outlay Reversions for Solvency	130.0	131.4	1.4	-	-	-
Chapter 2, 2nd SS/SB 2, Temporary Tax Amnesty Program	-	-	-	2.1	2.1	-
<b>Use ARRA to supplant General Fund Expenditures</b>	<u>20.0</u>	<u>20.0</u>	-	-	-	-
<b>Subtotal solvency</b>	458.9	460.3	1.4	2.1	2.1	-
<b>Authorized Transfers from Reserves:</b>						
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	79.6	58.1	23.6	3.4	24.9	21.5
Ch 6, 2nd SS/HB 2 Transfer from Appropriation Contingency Fund	-	-	-	<u>49.0</u>	<u>49.0</u>	-
Subtotal authorized transfers from reserves	194.6	173.1	23.6	52.4	73.9	21.5
<b>Total adjustments and nonrecurring revenue</b>	<b>653.5</b>	<b>633.4</b>	<b>25.0</b>	<b>54.5</b>	<b>76.0</b>	<b>21.5</b>

## Risks to the Forecast

### Negative Factors:

- The U.S. and New Mexico economies are believed to be at the bottom of an economic cycle
- A “double-dip” recession is still a possibility
- Oil and natural gas prices are always an uncertainty

### Positive Factors:

- Some of our economic models show moderate General Fund growth if economic assumptions are realized
- Oil and natural gas prices forecasting services are showing better price realizations than prices assumed in this forecast
- Forecast does not assume any Federal assistance to the states