REVENUE

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ISSUES FOR HEARING

December 2012 Consensus Revenue Estimate

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Summary.

- The consensus revenue estimating group (Legislative Finance Committee, Department of Finance and Administration, Taxation and Revenue Department, and Department of Transportation) met and reached consensus on the revenue estimates presented in this brief.
- Total FY12 preliminary recurring revenue is now $5,802.4 million. Table 1 presents a reconciliation of recurring revenues through the revenue estimating cycle.
- Attachment 1 (page 8) shows general fund revenue revisions from August 2012 to December 2012. FY12 revenue was revised upward from the preliminary August actuals by $56 million. The FY13 revenue estimate was revised upward $20 million from the August forecast. The FY14 revenue estimate was revised upward by $11 million from the August forecast.
- Attachment 2 (page 10) shows the general fund financial summary. Preliminary ending balances are $755 million, or 13.8 percent of recurring appropriations at the end of FY12. The projected FY13 ending balance is $805 million, or 14.2 percent of recurring appropriations. Once the balance in the operating reserve fund reaches 8 percent of the prior budget year's recurring appropriations, the excess must be transferred to the tax stabilization reserve. The financial summary shows a transfer of $97 million to the tax stabilization reserve for FY12 and projects a $34 million transfer in FY13.
- "New Money" in FY14, defined as FY14 projected revenue less FY13 recurring appropriations, is projected to be $282 million or 5 percent of FY13 appropriations. As reported in August, Chapter 127, Laws 2009 requires state employees to contribute an additional 1.5 percent to retirement plans thru FY13. Upon expiration, this retirement swap will cost the state $36 million starting in FY14. There is also an ERB 0.75 percent employer contribution increase for public school retirement starting in FY14. This will cost the state about $16 million in FY14 and $36 million in FY15. This summary also includes replacing 50 percent of the tobacco settlement funds with general fund. These scheduled appropriations would cost the state $72 million in FY14. This will reduce the "new money" to $210 million.

Table 1
December 2012 Consensus General Fund Recurring Revenue Outlook
(Millions of Dollars)

	FY12	FY13	FY14	FY15
December 2011 estimate	$5,533	$5,688	$5,842	$6,037
2012 Leg. Revisions	-$4	-$18	-$40	-$54
August 2012 revisions	$218	$18	$120	$199
December revisions	$56	$20	$11	$65
December 2012 Consensus	$5,802	$5,707	$5,933	$6,246
Annual amount change	$394	-$95	$225	$314
Annual percent change	7.3%	-1.6%	3.9%	5.3%

<u>The Economic Forecast</u>. This revenue forecast includes a change to the economic indicators traditionally used by revenue estimators to prepare a forecast. The LFC, TRD, and DOT continue to rely on New Mexico forecasts produced by UNM's Bureau of Business and Economic Research (BBER). BBER, in turn, has relied on a national forecast produced by IHS Global Insight. The Department of Finance and Administration elected to use Moody's Analytics for its national and state forecasts. During the consensus meetings the indicators were discussed at great length. DFA chose to use Moody's national indicators instead of IHS Global Insight but due to inconsistencies in Moody's state forecast DFA chose to use BBER's forecasts. The New Mexico indicators do not assume Medicaid expansion. Selected economic indicators from these forecasts are presented in Attachment 3 (page 12).

Lower labor-force participation has been the primary driver of the drop in unemployment. New Mexico's October unemployment rate was 6.3 percent, compared to 6.4 percent in September, and 7.2 percent a year ago. The Bureau of Labor Statistics reported that New Mexico non-farm employment in October (seasonally adjusted) increased 0.4 percent or 3 thousand over September to 798.8 thousand, and decreased 0.8 percent or 6 thousand from a year ago. Looking forward, BBER anticipates job growth of only 0.8 percent in FY13. New Mexico is not projected to regain the previous peak number of payroll jobs, about 820 thousand, until 2016, eight years after that level was first achieved. Private wages and salaries, a critical driver of gross receipts taxes, are expected to grow by 3.6 percent in FY13 and 3.7 percent in FY14.

Forecasters are uncertain about recovery in 2013 but are more optimistic about 2014 and 2015. The consensus forecast assumes that we do not entirely go off "the fiscal cliff" and that the federal government comes to a compromise. These compromises include "Bush era" tax cuts remaining in place in 2013, the 2 percent payroll tax cut and emergency UI benefits being extended for 2013 and then phased out slowly, and finally the automatic spending cuts replaced by a combination of spending cuts (including entitlements) and tax increases in FY14. Growth in real gross domestic product (GDP) is expected to increase slightly to 1.7 percent in FY13 and then increase further to 2.8 percent in FY14. Inflation in the U.S. is expected to remain subdued, at 1.9 percent in FY13 and 2.5 percent in FY14.

<u>Energy Markets</u>. Oil prices in FY13 have declined slightly since the August forecast. The lower oil prices result from weakness in global growth, but strength continues from improvements in GDP and an increase in domestic demand as new pipes increased oil transported to oil refineries. Tensions in the Middle East do pose an upside risk for oil prices. However, continued economic uncertainty in the U.S. and Europe threaten ongoing price growth.

Attachment 4 (page 13) shows that oil prices are expected to remain around $85 per barrel (bbl) in FY13, with moderate declines in out years consistent with slower economic recovery and ongoing uncertainty in the oil markets. Oil volumes increased by 9.8 percent in FY11, with preliminary actuals showing a 15.8 percent increase in FY12. The forecast assumes a modest but positive growth of about 5 percent in FY13 and FY14. Recent activity in the Permian basin suggests continued growth in oil volumes in the forecast years with decreasing production associated with well decline expected in later years. Industry analysts suggest that pipeline and trucking capacity constraints in the Permian basin may decrease prices. In fact, the New Mexico price differential to WTI appears to have increased to $5.32/bbl in FY12 from $4.65/bbl in FY11. Each additional $1/bbl change in price sustained over one year is equivalent to a $4.5 million change in general fund revenue.

Natural gas prices continue to remain low, largely in response to supply increases resulting from technological improvements in production and ongoing strength in shale-based liquids. In August, lower demand from a mild winter was partially offset by heat wave conditions that had increased electric generation usage up in the summer. With predictions for another mild winter, analysts expect lower demand to further inhibit any growth in volumes. New Mexico natural gas prices continue to see gains above Henry Hub due to high prices paid for natural gas liquids, which trend with oil prices. In FY11, the total gas prices averaged $5.50 and the processed or dry gas prices averaged $4.03. The premium above the dry gas price for natural gas liquids averaged $1.47 per thousand cubic feet (mcf) in FY11. In FY12, the total gas prices averaged $5.00 and the processed or dry gas prices averaged $3.23. The premium above the dry gas price for natural gas liquids averaged $1.79 per thousand cubic feet (mcf) in FY12.

The natural gas price forecast is $4.50/mcf for FY13, down $0.40/mcf from the August forecast. Natural gas prices were revised downward through the forecast period due to expectations of national production growth and slow economic recovery. Natural gas volumes – expressed in thousands of cubic feet equivalent – fell by 2.9 percent in FY11 and 0.8 percent in FY12. Volumes are expected to continue to decline as production moves to richer plays, such as in Texas and Pennsylvania. Although natural gas volumes are falling, higher prices and volumes for natural gas liquids help to offset part of the decline in total production. The liquids premium is expected to average $1.20/mcf in FY13 and FY14. Each $0.10 change in natural gas price is equivalent to an $8.5 million change in general fund revenue.

Bonding. The DFA net senior severance tax bonding capacity is estimated to reach $222.4 million in FY14. In setting bonding capacity, the DFA chose to use lower oil volumes than those in the consensus forecast estimates. If they had used the consensus numbers, the state capacity would be $1.6 million higher.

Other Revenue Highlights. In August the consensus revenue estimating group agreed to significantly increase the gross receipts forecast due to strength in this revenue source, in particular from the oil and gas industry. After analyzing several months of actual receipts analysts agreed to keep the forecast strong (see attachment 6, page 15). Analysts reached consensus on growth rates of 4.1 percent for FY13 and 3.9 percent for FY14, before tax credit adjustments. The net revenue generated from taxable gross receipts is increased by $14 million in FY13 and $30 million in FY14 – partly due to the estimated decreased cost of the high wage jobs tax credit; this credit can also be claimed against withholding or compensating tax liabilities. In total, high wage jobs tax credit claims are estimated at $24 million annually in FY13 and FY14.

The higher impact of the manufacturing tax credit was previously incorporated into the August estimate. Receipts were reduced an additional $16 million in FY13 and $32 million in FY14 to account for the impact of the manufacturing and construction tax credit. Several committees have heard testimony that the impact of this credit was underestimated during the 2012 legislative session. The current FY13 and FY14 estimate is roughly double and triple the amounts estimated in the final session fiscal impact report for the two fiscal years, respectively.

Calendar year PIT liability is expected to increase 1.4 percent and 4.3 percent in 2013 and 2014, respectively. Strength in oil and gas withholding and capital gains is additive to the growth in base liability. The high PIT growth rate in FY12 is due to $36 million in fiduciary tax that DFA booked as nonrecurring in FY11. The lower growth rate in FY13 is due to about $26 million in oil and gas withholding tax revenue in FY12 that is not anticipated in FY13. The net revenue generated is then reduced by $2 million – the estimated cost of the high wage jobs tax credit attributable to PIT.

The consensus revenue estimating group engaged in a spirited debate about the underlying growth of corporate income taxes. Corporate income tax (CIT) receipts fell below the FY12 estimate by 9 percent, coming in at $281 million. For FY13, CIT revenues are estimated to remain flat, a revision downward from August reflecting weakness in federal corporate income tax projections and weakness in current fiscal-year receipts. FY14 gross revenue growth is projected to be 22 percent and in part reflects recovery in the national economy. The net growth rates shown in Attachment 1 (page 8) reflect the effect of the film production tax credit increasing from $10 million in FY12 to the maximum allowable $50 million in FY13 and FY14, respectively.

As mentioned in August a major downside risk to this forecast is $70 million in carry-forwards from the renewable energy production tax credit. To simplify, the credit may be claimed by entities that hold title to or lease a qualified energy generator and the tax must be used to reduce tax liability; excess amounts can be carried forward for five years. Given an economic expansion, taxpayers should presumably draw down the carry-forwards and therefore reduce their payments and future CIT revenue.

Energy-related revenues account for the majority of the FY12 estimating error. Notably FY12 federal mineral leasing revenues were underestimated by 20 percent or $82 million. The December 2012 revenue estimate assumes continued strength in oil prices and production volumes, as well as continued bonus revenues from Bureau of Land Management lease sales. However, it is not expected that the FY12 record level of bonuses will be attained in FY13 or FY14.

High oil prices and volumes outweighed weakness in natural gas prices in FY12. As mentioned earlier, growth in oil production surged to 15.8 percent in FY12 compared to the forecast growth of 1 percent in December 2011. Further, oil production increases are concentrated on federal lands with FY12 production reaching almost 50 percent of the total compared to 43 percent five years ago. Revenue estimators expect continued growth in oil production in the near future.

Revenues associated with the permanent funds are not growing significantly. Distributions are based on a rolling average of the last 5 calendar years' market value for the respective funds, and distributions for FY13 and FY14 are based in part on low market values in fiscal years 2010 and 2011 resulting from the economic recession. Further, the rate of distribution from the Land Grant Permanent Fund to beneficiaries decreased from 5.8 percent of the fund's market value in FY12 to 5.5 percent in fiscal years 13 through 16.

The FY14 insurance premium tax estimate contains the first fiscal impacts from the Affordable Care Act (ACA). Note that premiums taxed are paid quarterly and the impacts will only be reflected in the last quarterly payment for FY14; much larger impacts are anticipated for subsequent fiscal years. Analysts have been careful to include the impacts of existing law only. No Medicaid expansion is assumed.

The ACA is expected to increase revenues by three avenues. The first is the "woodwork effect". HSD expects 11,000 Medicaid eligible persons to enroll so that they avoid federal penalties in their 2014 taxes. Secondly, analysts expect some 12,000 thousand enrollees on the new health care exchange. Lastly, significant amounts of premium tax are diverted to the New Mexico Medical Insurance Pool (NMMIP). NMMIP provides access to health insurance coverage to residents of New Mexico who are denied health insurance and considered uninsurable. For FY 13, NMMIP has assessed health insurance companies $123 million to substantially fund the pool. Insurance carriers in turn are allowed a roughly 55 percent credit on assessments which are claimed against premium tax liability.

A central premise of ACA is to provide access to health care regardless of pre-existing condition; an HIV positive 50 year-old man in Albuquerque will pay the same premium as a 50 year-old HIV negative man. Further, premium payers between 138 percent to 400 percent of federal poverty level guidelines will receive federal tax credits. Intuitively, the bulk of NMMIP pool participants should therefore receive insurance through the exchange. However, not all participants are eligible to participate. Undocumented residents, currently estimated to be around 20 percent of the pool, will still participate in NMMIP.

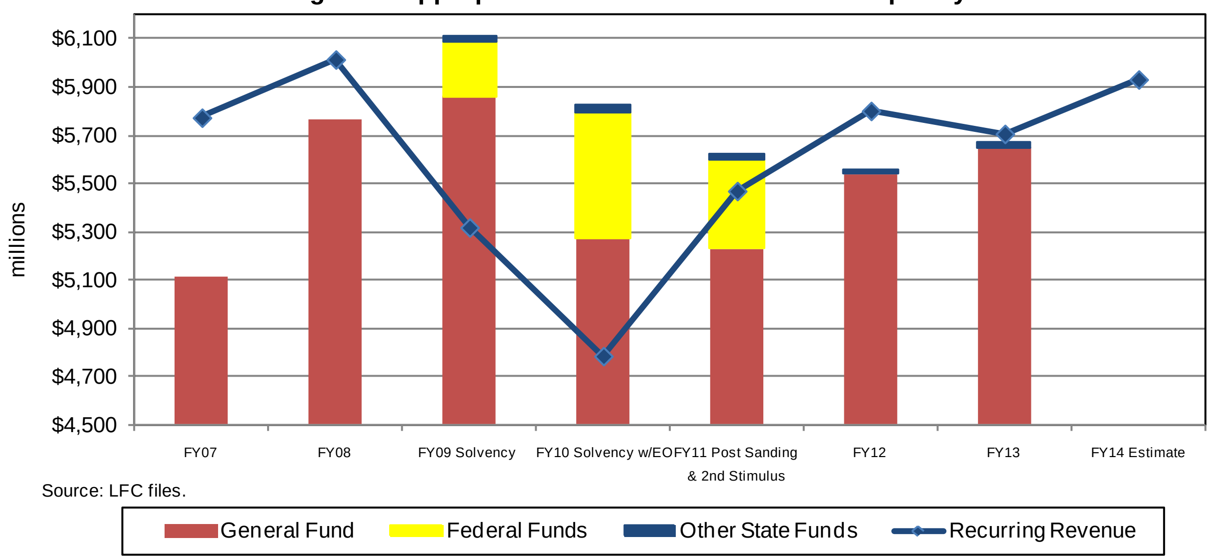
Absent Medicaid expansion, persons between 100 percent and 138 percent of federal poverty level guidelines (estimated at 20 percent), will presumably remain in the pool. This leaves 60 percent of the pool eligible to enter the exchange on January 1, 2014. However NMMIP's policy is to "close the pool" and let existing members migrate of their own accord to the federal exchange. By NMMIP's own reckoning, premiums purchased on the federal exchange will be more expensive than the (general fund subsidized) NMMIP premiums. This policy is estimated to cost the general fund about $28 million in FY14. Analysts believe NMMIP's current policy will cause the pool to shrink by natural attrition at a rate of five percent a month.

General Fund Financial Summary. The general fund financial summary shown in Attachment 2 (page 10), including estimated 2012 deficiencies, supplementals, specials, and the feed bill, shows that FY12 revenues will exceed appropriations by $239.3 million. Under that scenario, reserves reach a total of $754.8 or 13.8 percent of recurring appropriations in FY12, and $804.3 million, or 14.2 percent, in FY13. National rating agencies such as Moody's and Standard & Poor's, traditionally have considered balances of five percent or above as sufficient.

As mentioned in the summary once the operating reserve fund hits 8 percent of the prior budget year's recurring appropriations, the excess must be transferred to the tax stabilization reserve by law. The financial summary shows a transfer of $96.9 million to the tax stabilization reserve for FY12 and projects a $33.7 million transfer in FY13. FY14 "New Money" is projected to be $282 million or 5 percent of FY13 revenue.

General Fund Appropriations and Temporary Funds. Figure 1 illustrates recent trends in general fund appropriations, highlighting the role played by temporary funding sources. While general fund recurring revenue fell by over 20 percent from FY08 to FY10, total spending actually increased between FY08 and FY10 post-solvency. From a peak of over $6 billion in FY09, total spending fell by 4.8 percent in FY10 and by 8.5 percent in FY11 after allotment reductions. If general fund spending is raised to the level of projected FY14 revenue, total spending would be 3 percent below the FY09 peak but 4.7 percent above FY13 appropriations.

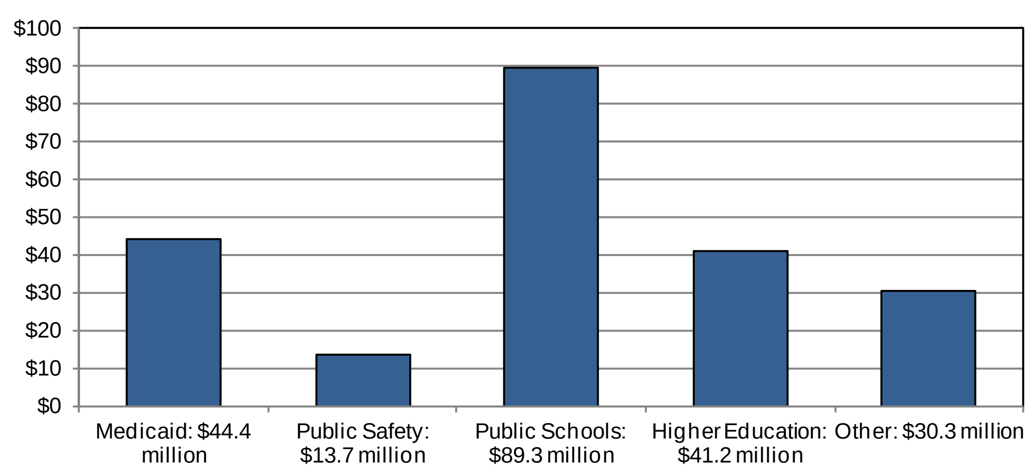
Figure 1. Appropriations: General Fund and Temporary Funds



Source: LFC files.

Figure 2 illustrates the change in total appropriations by major budget category for FY13. Total spending is up 4 percent from the FY12 operating budget. For public schools the increase is 3.8 percent; for higher education, 5.7 percent. Medicaid spending will increase 4.2 percent, and other state agencies will increase by 3.2 percent. These expansions total about $219 million.

Figure 2. FY13 General Fund Expenditure Changes: $219 million



Sourc: LFC Files, GAA

Upside/Downside Risks to the Forecast.

- Economic recovery has lost momentum but is still positive. It remains vulnerable to weakness in consumer sentiment, personal income, the housing market, currency volatility, financial sector weakness and federal fiscal imbalance. Although consumer spending has increased slightly, particularly due to high returns from Black Friday, high debt loads, low house prices, modest employment growth and a lack of confidence will likely limit momentum consumers are able to create for the near future.
- The Affordable Care Act will generate additional revenues with premiums being subject to state tax. State economists have estimated the impact based on existing federal law and no Medicaid expansion.
- New Mexico relies heavily on federal government spending through the national laboratories, military institutions, and transfer payments (including Medicaid). Any reductions in federal funding could have a negative impact on the New Mexico economy. Medicaid expansion with federal share in the range of 90 percent to 100 percent will boost state economic activity and revenue.
- The increasing cost of tax credits is a risk to state revenues. These include the high wage jobs tax credit, the manufacturing/construction GRT credits, the renewable energy production credit, and the film tax credit.
- Energy markets are inherently volatile. Natural gas prices continue to decline slightly each month and remain vulnerable to increased supplies from productivity improvements. Oil prices have declined from their high in early 2012, but continue to remain vulnerable to economic uncertainty. Oil production is strong due to horizontal drilling and expanded exploration. Environmental regulation on issues such as horizontal drilling and endangered species create uncertainty in future oil and natural gas production.
- A deeper Eurozone recession and a harder landing in China remain a serious threat to the world economy.
- The Federal Reserve is expected to expand its Quantitative Easing 3 program of asset purchases in 2013 which will keep the federal funds rate near zero until mid-2015. This should have a positive, albeit small, effect on revenues.
- Domestically the looming “fiscal cliff” continues to dampen recovery expectations. The expiration of the Bush-era tax cuts will increase income tax revenues for the state but have a negative impact on spending. One of these is the inheritance tax or the “death tax.” The decision is now up to the new Congress and president to produce a package of spending cuts and tax increases, mostly sparing discretionary spending because the cuts there are already aggressive.
- In July, the committee heard testimony about federal efforts to create a framework for regulating state taxing authority for in-state activities. The Digital Goods and Services Tax Fairness Act (H.R. 1860 and S. 971,112th Congress, 2nd Session) lays out a comprehensive framework of taxing goods and services provided over the internet but with significant limitations on states taxing such goods and services. The Marketplace Equity Act and the Marketplace Fairness Act a (H.R. 3179 & S. 1832, 112th Congress, 2nd Session) would grant states authority to impose taxes on remote internet retailers who compete with local retailers but currently do not have to collect and remit sales or gross receipts taxes to a purchaser’s home state. The imposition of New Mexico tax on remote sellers represents an upside risk to the forecast.
- As was reported before, the Attorney General disclosed that New Mexico is now facing a second legal challenge from those cigarette manufacturers (PMs) participating in the tobacco master settlement agreement. The PMs claim that New Mexico no longer has a valid qualifying statute as required by the settlement due to recent legislative changes, including a 2006 change that established tax exempt stamps for tribal sales. The AG believes that up to $38.5 million in tobacco settlement payments expected in FY13 are at risk unless new legislation is passed that clearly establishes that the state will collect tobacco escrow payments from all manufacturers that are not party to the master settlement.

General Fund Consensus Revenue Estimate: December 2012 (Millions of Dollars)

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

General Fund Consensus Revenue Estimate: December 2012 (Millions of Dollars)

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

General Fund Financial Summary - December 2012 Consensus Revenue Estimate

(in millions of dollars)

	Estimated FY2012	Estimated FY2013	Estimated FY2014
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue			
August 2012 Consensus Forecast	$ 5,746.3	$ 5,687.5	$ 5,922.1
Adjusted for Legislation			*$ -*
December 2012 forecast update	*$ 56.1*	*$ 19.9*	*$ 10.6*
Total Recurring Revenue	$ 5,802.4	$ 5,707.3	$ 5,932.7
Nonrecurring Revenue			
December 2012 Consensus Forecast	$ 14.7	$ (3.3)	$ (0.9)
Adjusted for Legislation	$ (40.0)	$ -	$ -
Total Non-Recurring Revenue (1)	$ (25.3)	$ (3.3)	$ (0.9)
TOTAL REVENUE	**$ 5,777.1**	**$ 5,704.0**	**$ 5,931.8**
APPROPRIATIONS			
Recurring Appropriations			
General Appropriation	$ 5,431.3	$ 5,649.6	
Special/New Initiatives Appropriations	$ 40.9		
Total Recurring Appropriations	$ 5,472.2	$ 5,649.6	
Nonrecurring Appropriations			
2012 Regular Session	$ 5.8		
2013 Regular Session - Capital Outlay		$ -	
2013 Deficiencies, Supplementals, Specials and IT	$ 59.9	$ -	
Total Nonrecurring Appropriations	$ 65.7	$ -	
TOTAL APPROPRIATIONS	**$ 5,537.9**	**$ 5,649.6**	
Transfer to(from) Reserves (2)	$ 239.3	$ 54.4	
GENERAL FUND RESERVES			
Beginning Balances	$ 503.3	$ 754.8	
Transfers from (to) Appropriations Account	$ 239.3	$ 54.4	
Revenue and Reversions	$ 176.4	$ 83.8	
Appropriations, expenditures and transfers out	$ (164.1)	$ (88.7)	
Ending Balances	**$ 754.8**	**$ 804.3**	
Reserves as a Percent of Recurring Appropriations	*13.8%*	*14.2%*	

New Money in FY14 is $282M

Notes:

(1) FY12 includes $18.3 in nonrecurring revenue: $11.4 million fund transfer for solvency, and $6.9 million for tax amnesty. The nonrecurring revenue reductions in FY13 and FY14 reflect accelerated revenue collections due to the tax amnesty program.

(2) Pursuant to Section 10, $40 million was transferred from the Appropriation Account to the Appropriation Contingency Fund in FY12.

General Fund Financial Summary - December 2012 Consensus Revenue Estimate
RESERVE DETAIL
(in millions of dollars)

	Estimated FY2012	Estimated FY2013
OPERATING RESERVE		
Beginning balance	$ 275.9	$ 417.0
BOF Emergency Appropriations/Reversions	$ (1.3)	$ -
Transfer out (1)		$ -
Transfers from/to appropriation account (1)	$ 239.3	$ 54.4
Transfer to tax stabilization reserve	$ (96.9)	$ (33.7)
Ending balance	$ 417.0	$ 437.8
APPROPRIATION CONTINGENCY FUND		
Beginning balance	$ 5.2	$ 27.6
Disaster allotments	$ (17.6)	$ (16.0)
Other appropriations	$ -	$ -
Transfers in (1)	$ 40.0	$ -
Revenue and reversions		$ -
Ending Balance	$ 27.6	$ 11.6
Education Lock Box		
Beginning balance	$ 47.1	$ 38.1
Appropriations (GAA Section 5&6) (2)	$ (9.0)	$ -
Transfers in (out)	$ -	$ -
Ending balance	$ 38.1	$ 38.1
Total of Appropriation Contingency Fund	$ 65.7	$ 49.7
STATE SUPPORT FUND		
Beginning balance	$ 1.0	$ 1.0
Revenues	$ -	$ -
Appropriations	$ -	$ -
Ending balance	$ 1.0	$ 1.0
TOBACCO PERMANENT FUND		
Beginning balance	$ 148.0	$ 148.2
Transfers in	$ 39.3	$ 39.0
Appropriation to tobacco settlement program fund	$ (19.7)	$ (19.5)
Gains/Losses	$ 0.2	$ 11.1
Additional transfers to Program Fund	*$ (19.7)*	*$ (19.5)*
Ending balance	$ 148.2	$ 159.3
TAX STABILIZATION RESERVE		
Beginning balance	$ 26.1	$ 123.0
Transfers in	$ 96.9	$ 33.7
Ending balance	$ 123.0	$ 156.7
GENERAL FUND ENDING BALANCES	**$ 754.9**	**$ 804.5**
Percent of Recurring Appropriations	*13.8%*	*14.2%*

Notes:

(1) Transfer from FY12 appropriation account to replenish the Appropriation Contingency Fund.

(2) DFA scores this appropriation as $8 million in FY12

U.S. and New Mexico Economic Indicators

	FY12		FY13		FY14		FY15		FY16		FY17	
	Aug12 Forecast	Dec12 Actual	Aug12 Forecast	Dec12 Forecast	Aug12 Forecast	Dec12 Forecast	Aug12 Forecast	Dec12 Forecast	Aug12 Forecast	Dec12 Forecast	Aug12 Forecast	Dec12 Forecast
National Economic Indicators												
US Real GDP Growth (annual avg. ,% YOY)[1]												
IHS Global Insight	1.8	2.1	2.0	1.7	2.1	2.8	3.3	3.5	3.1	2.9	3.0	2.7
Moody's Analytics[2]	1.8	2.0	2.0	1.9	2.1	3.0	3.3	4.3	3.1	3.8	3.0	3.0
US Inflation Rate (CPI-U, annual avg., % YOY)[3]												
IHS Global Insight	2.3	3.0	2.3	1.5	2.3	1.5	2.4	1.8	2.4	1.7	2.5	2.0
Moody's Analytics	2.3	2.9	2.3	1.9	2.3	2.5	2.4	2.6	2.4	2.4	2.5	2.3
Federal Funds Rate (%)												
IHS Global Insight	0.10	0.10	0.16	0.16	0.16	0.16	0.82	0.19	2.85	1.64	3.99	3.57
Moody's Analytics	0.10	0.10	0.16	0.10	0.16	0.09	0.82	0.84	2.85	3.09	3.99	4.21
New Mexico Labor Market and Income Data[4]												
NM Total Employment Growth	0.2	0.1	1.2	0.8	1.2	1.6	1.5	1.8	1.6	1.7	1.6	1.5
NM Non-Agricultural Employment Growth (%)	0.2	0.6	1.2	0.8	1.2	1.1	1.5	1.6	1.6	1.6	1.6	1.5
NM Personal Income Growth (%)[5]	4.4	4.4	3.3	2.7	3.4	3.4	4.4	5.3	5.0	5.0	5.1	5.1
NM Private Wages & Salaries Growth (%)	3.8	2.2	4.2	3.6	3.8	3.7	4.5	4.5	4.5	4.5	4.7	4.5
NM Total Wages & Salaries Growth (%)	2.8	1.6	3.0	2.5	2.9	2.7	3.7	3.8	4.0	3.8	4.3	3.9
Crude Oil and Natural Gas Outlook												
NM Oil Price ($/barrel) [6]	$90.25	$89.64	$85.00	$85.07	$87.25	$84.75	$87.25	$83.50	$86.25	$82.50	$85.75	$83.00
NM Taxable Oil Volumes (million barrels)	78.0	79.7	81.1	84.1	83.6	88.4	85.2	92.4	86.1	96.1	86.1	97.6
NM Taxable Oil Volumes yr/yr growth		15.8%		5.5%		5.1%		4.5%		4.0%		1.6%
NM Gas Price ($ per thousand cubic feet)[6]	$5.10	$5.00	$4.90	$4.50	$5.50	$5.00	$5.90	$5.40	$6.00	$5.60	$5.95	$5.50
NM Taxable Gas Volumes (billion cubic feet)	1,225	1,229	1,175	1,185	1,137	1,151	1,100	1,121	1,073	1,090	1,048	1,048
NM Taxable Gas Volumes yr/yr growth		-0.8%		-3.6%		-2.9%		-2.6%		-2.8%		-3.9%

[1] Real GDP is BEA chained 2005 dollars, billions, annual rate

[2] For national indicators, DFA used a different forecasting service (Moody's Analytics) in the December revenue estimating process.

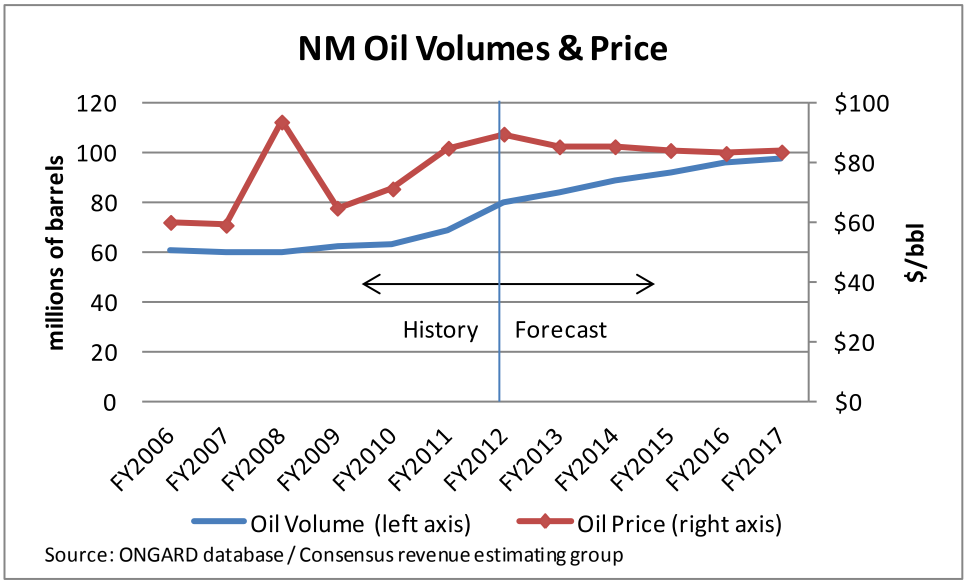
[3] CPI is all urban, BLS 1982-84=1.00 base. (October 2012)

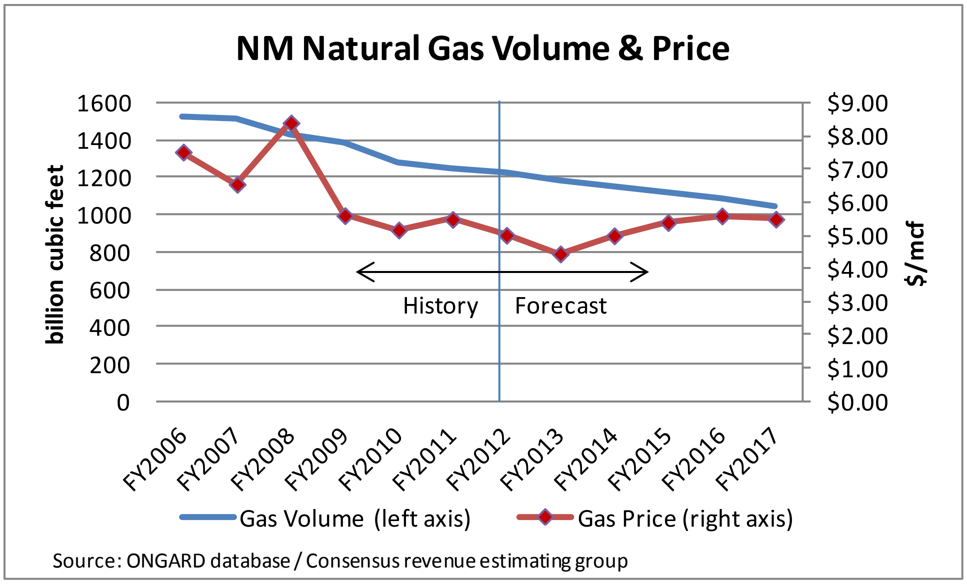
[4] NM labor market and income data assumes no medicaid expansion.

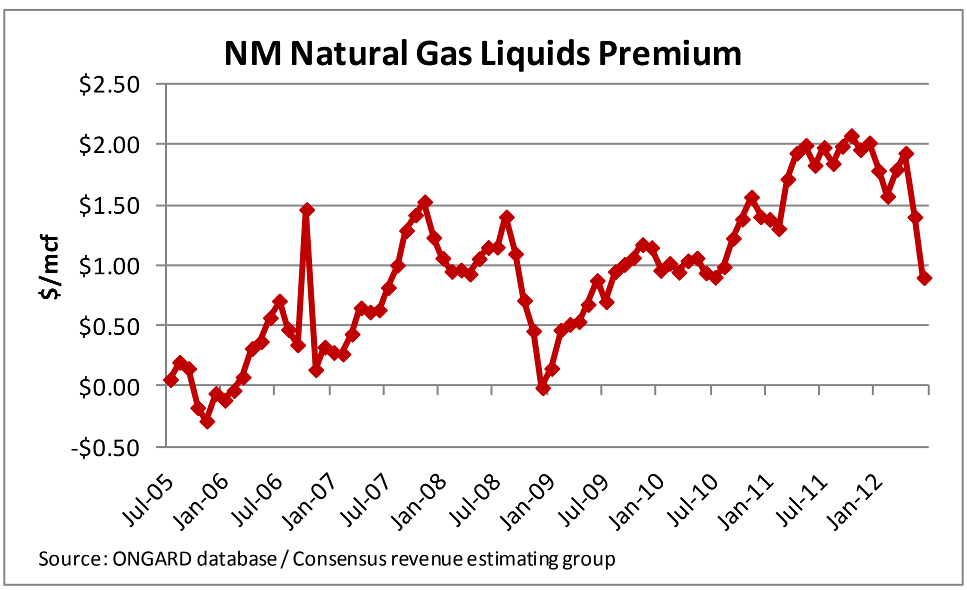
[5] Personal Income growth rates are for the calendar year in which each fiscal year begins

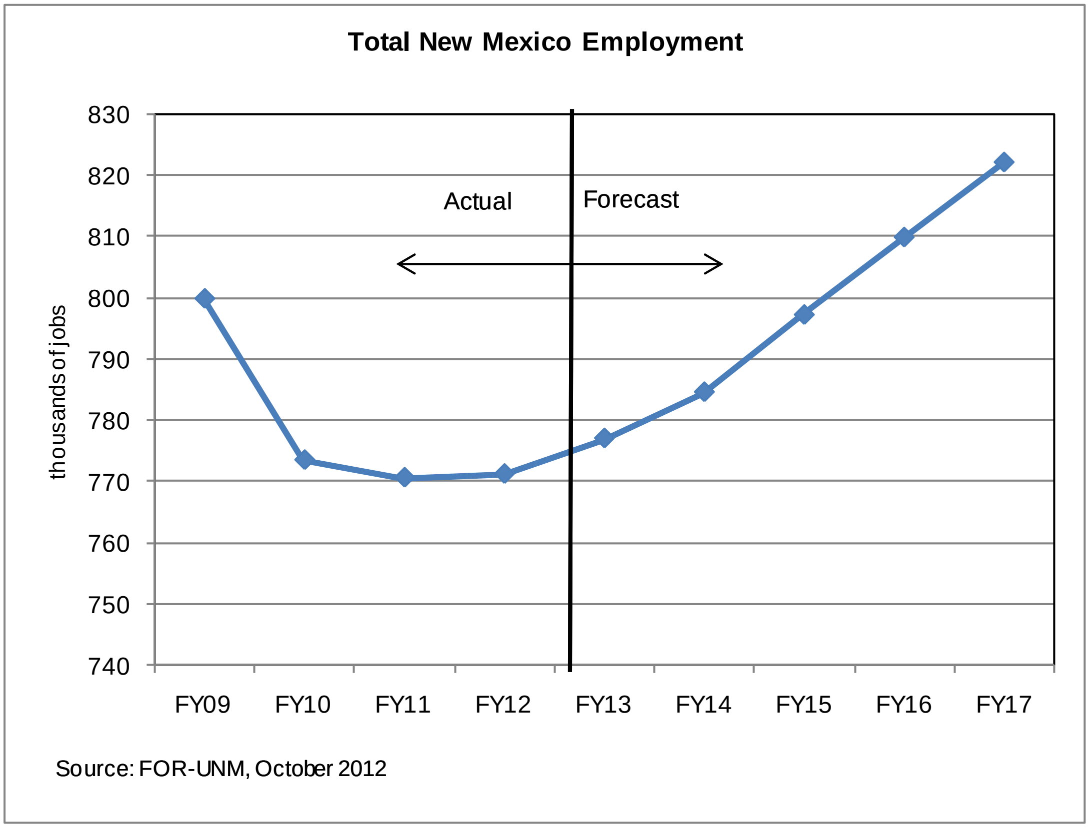
[6] The oil and gas prices are estimated using a formula of NYMEX, EIA, and Global Insight future prices as well as a liquid premium based on oil prices.

Sources: October 2012 IHS Global Insight, BBER FOR-UNM, Moody's Analytics

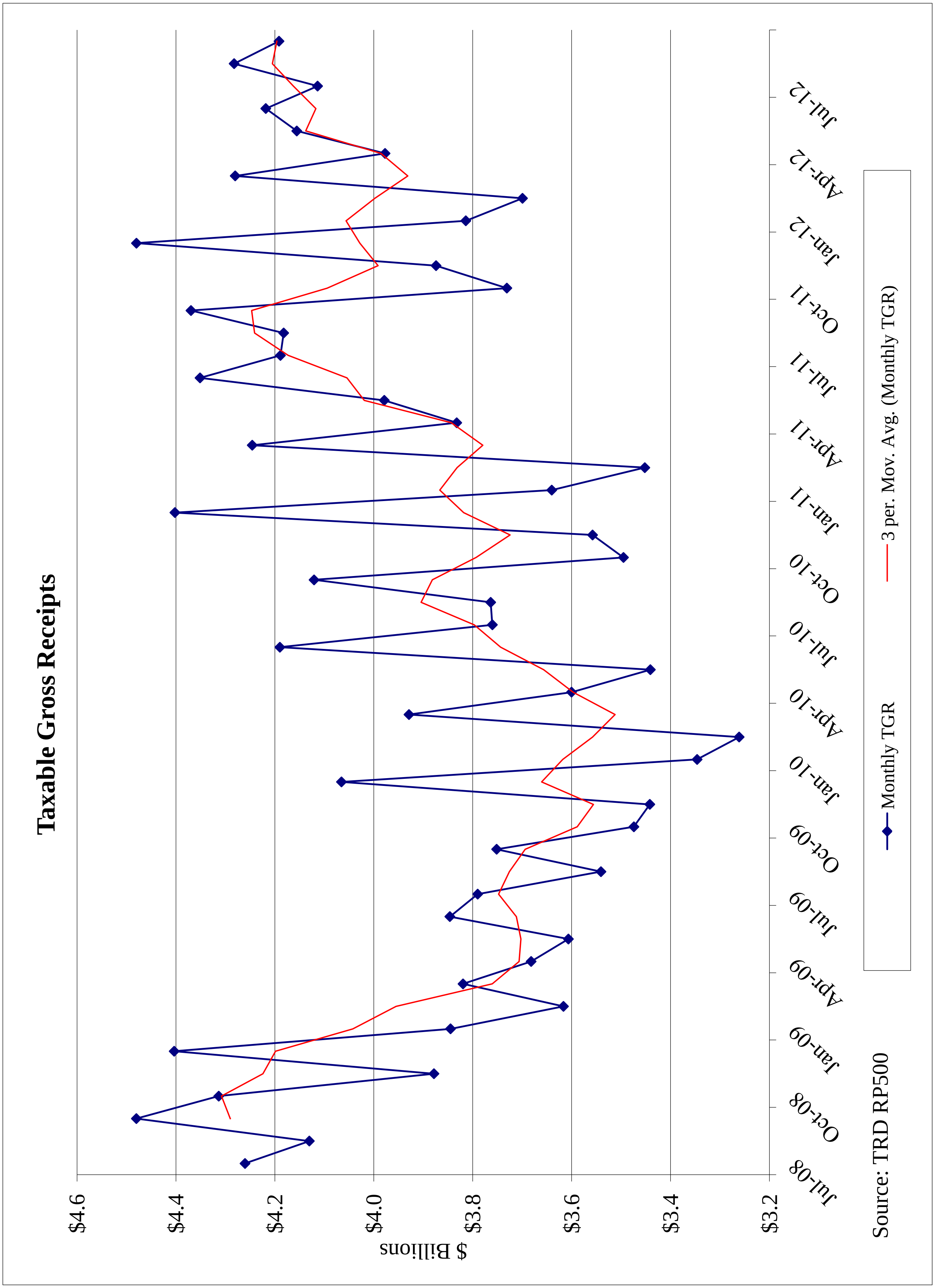

NM Oil Volumes & Price
millions of barrels
120
100
80
60
40
20
0
$100
$80
$60
$40
$20
$0
$/bbl
History
Forecast
FY2006
FY2007
FY2008
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
FY2015
FY2016
FY2017
Oil Volume (left axis)
Oil Price (right axis)
Source: ONGARD database / Consensus revenue estimating group


NM Natural Gas Volume & Price
billion cubic feet
1600
1400
1200
1000
800
600
400
200
0
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00
$/mcf
History
Forecast
FY2006
FY2007
FY2008
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
FY2015
FY2016
FY2017
Gas Volume (left axis)
Gas Price (right axis)
Source: ONGARD database / Consensus revenue estimating group


NM Natural Gas Liquids Premium
$/mcf
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
-$0.50
Jul-05
Jan-06
Jul-06
Jan-07
Jul-07
Jan-08
Jul-08
Jan-09
Jul-09
Jan-10
Jul-10
Jan-11
Jul-11
Jan-12
Source: ONGARD database / Consensus revenue estimating group


Total New Mexico Employment
830
820
810
800
790
780
770
760
750
740
thousands of jobs
Actual
Forecast
FY09
FY10
FY11
FY12
FY13
FY14
FY15
FY16
FY17
Source: FOR-UNM, October 2012


New Mexico Private Wage and Salary
32
30
28
26
24
22
20
billions of dollars
Actual
Forecast
FY09
FY10
FY11
FY12
FY13
FY14
FY15
FY16
FY17
Source: FOR-UNM, October 2012


Taxable Gross Receipts
$ Billions
$4.6
$4.4
$4.2
$4.0
$3.8
$3.6
$3.4
$3.2
Jul-08
Oct-08
Jan-09
Apr-09
Jul-09
Oct-09
Jan-10
Apr-10
Jul-10
Oct-10
Jan-11
Apr-11
Jul-11
Oct-11
Jan-12
Apr-12
Jul-12
Monthly TGR
3 per. Mov. Avg. (Monthly TGR)
Source: TRD RP500

The 2013 Fiscal Cliff

All Figures Are Calendar Year Estimates	$ Billions	Percent of GDP
Possible:		
Bush Tax Cut Expiry	197	1.2
Payroll Tax Cuts Expiry	113	0.7
Sequester Spending Cuts	72	0.4
Emergency UI Benefits Expiry	45	0.3
Depreciation Incentives Expiry	66	0.4
Total (Narrow Cliff)	**493**	**3.0**
Possible But Highly Unlikely:		
AMT Fix Not Extended	114	0.7
Doc Fix Not Extended	13	0.1
Total (Broad Cliff)	**621**	**3.8**

Source: IHS calculations based on CBO data

GDP Impacts of Going Off the Fiscal Cliff