February 16, 2017

MEMORANDUM

TO: Representative Patricia Lundstrom, Chair, House Appropriations and Finance Committee
Senator John Arthur Smith, Chair, Senate Finance Committee

FROM: Elisa Walker-Moran, Chief Economist, Taxation and Revenue Department
Clinton Turner, Chief Economist, Department of Finance and Administration
Laura Bianchini, Chief Economist, Department of Transportation
Jon Clark, Chief Economist, Legislative Finance Committee

SUBJECT: Consensus Revenue Estimating Group – 2017 Mid-Session Review of Revenues

Prior to the mid-point of each legislative session, the Consensus Revenue Estimating Group (CREG) meets to review updated economic indicators and the most recent tax receipt data to determine whether the consensus revenue estimate warrants updating. This memorandum summarizes the work and conclusions of the CREG, comprised of the Legislative Finance Committee (LFC), Department of Finance and Administration (DFA), Taxation and Revenue Department (TRD), and Department of Transportation (DOT).

After careful review of information newly available since the December forecast, CREG reached consensus to make no changes to the December 2016 forecast. The CREG would caution that even though the forecast remains unchanged, there are upside and downside risks to this forecast.

December 2016 Consensus General Fund, **Recurring Revenue Outlook** (in millions of dollars)

FY16	FY17	FY18	FY19
$5,708.8	$5,600.2	$5,929.1	$6,142.4

In the December revenue forecast, FY17 ending reserve balances were projected to be negative 1.1 percent; however, due to solvency measures taken during this session and already signed by Governor Martinez, the projected FY17 ending reserve balance is now projected to be 1.6 percent of recurring appropriations.

To determine potential changes in the forecast, CREG reviewed estimates for general sales taxes (including gross receipts and compensating tax), selective sales taxes (including motor vehicle, tobacco, liquor, and others), income taxes (including personal and corporate income), severance taxes, interest earnings, tribal revenue sharing, and rents and royalties. CREG also reviewed an additional quarter of actual receipts, including preliminary December revenue accruals, which indicated the state is tracking closely with the December 2016 consensus estimate.

CREG also considered revised national economic indicators – including gross domestic product, inflation rates, exchange rates, commodity prices, and federal funds rate – as well as revised New Mexico economic indicators – including growth in employment, personal income, total wages and salaries, housing permits, initial unemployment claims, and gross state product.

Changes in forecasts for oil and natural gas volumes were incorporated into the review based on five months of New Mexico data. While prices were revised upward for FY17 and FY18, volumes expectations remained unchanged and the effects of price revisions were partially offset by negative changes in other revenue sources.

The average of the two economic forecasts (BBER and Moody's) used by CREG for New Mexico's non-agricultural employment growth in FY17 is 0.3 percent, down slightly from the 0.4 percent forecasted in the December estimate. Nominal personal income growth is now forecast at 1.9 percent in FY17, down from a previous forecast of 2.1 percent, while growth expectations for FY18 remain unchanged at 2.5 percent.

Although the average forecast shows a slightly more pessimistic outlook for employment growth and other economic factors compared with the December estimates, it is encouraging the two forecasts are much more in unison – the wide disparities seen previously have largely dissipated, lending a greater sense of certainty to the outlook for mild growth.