

Economic and Budget Update: 2015 Regular and Special Legislative Sessions

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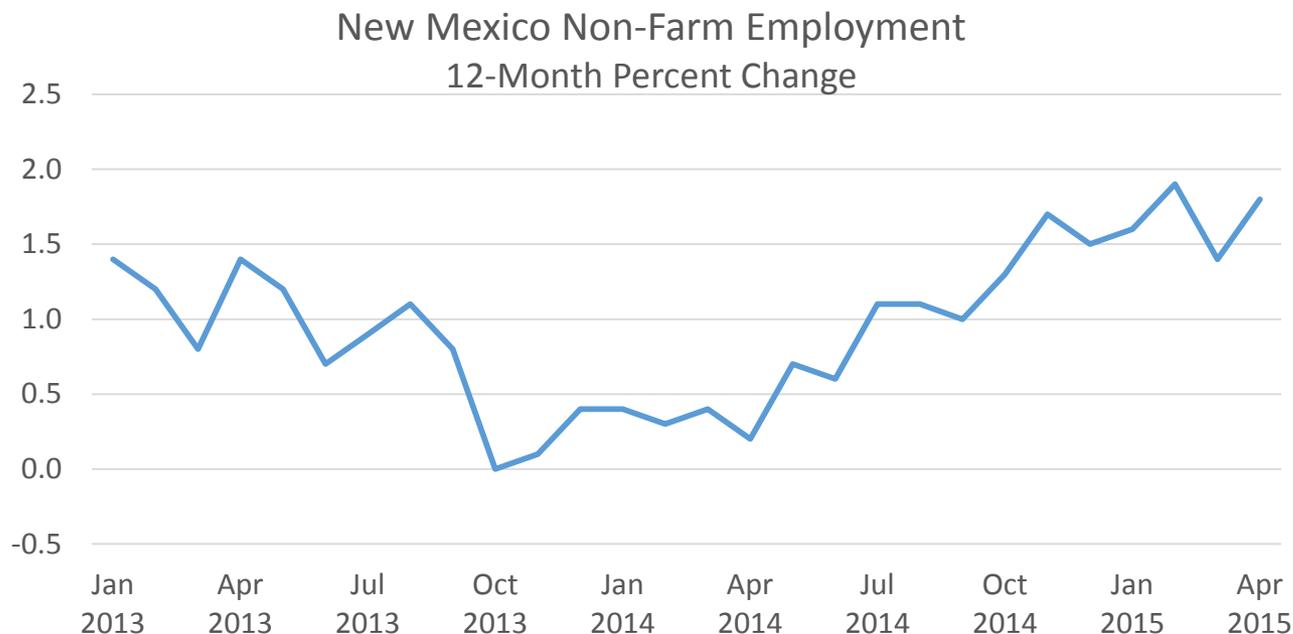
Presented to the Revenue Stabilization and Tax Policy
Committee

June 17, 2015

Overview

- Smooth transition to new House Leadership
- Falling O&G revenue constrained budget development
 - Tribal Gaming compacts increased annual revenue
- Education, Economic Development and Child welfare prioritized:
 - Public School Support, reforms expanded
 - LEDA, JTIP funding increased
 - Child welfare spending up sharply
- Executive and Legislature compromised to pass important Tax Initiatives and Capital Outlay

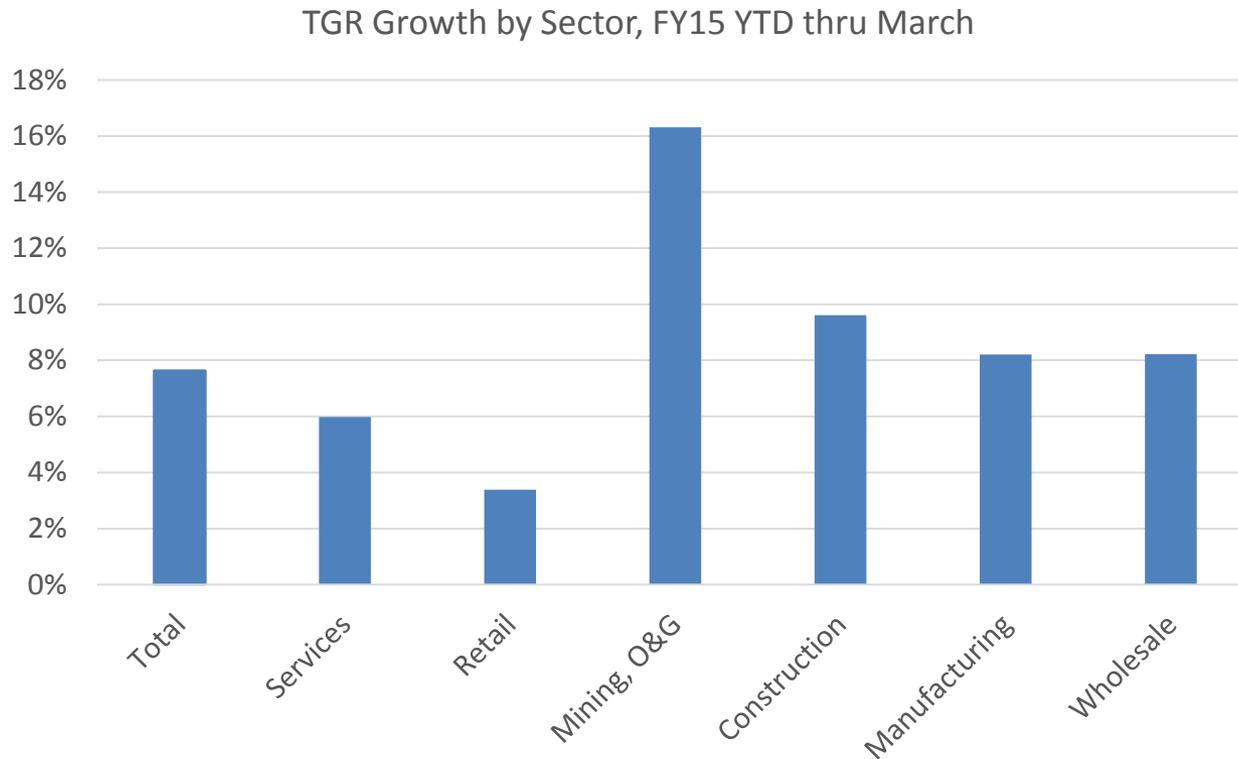
New Mexico Employment Rebounding



Source: U.S. Bureau of Labor Statistics, seasonally-adjusted

- Growth rate back to long-term average
- Level back to previous peak within one year
- Growth across most industries
 - Education & Health Care, Leisure & Hospitality, Professional Services strongest
 - Government drag diminishing

Strong Taxable Gross Receipts Growth



- Total TGR up 7.6% with broad-based growth
- Mining strongest; Construction rebound
- Services and Retail recovering; ongoing Manufacturing growth

Energy Market Update

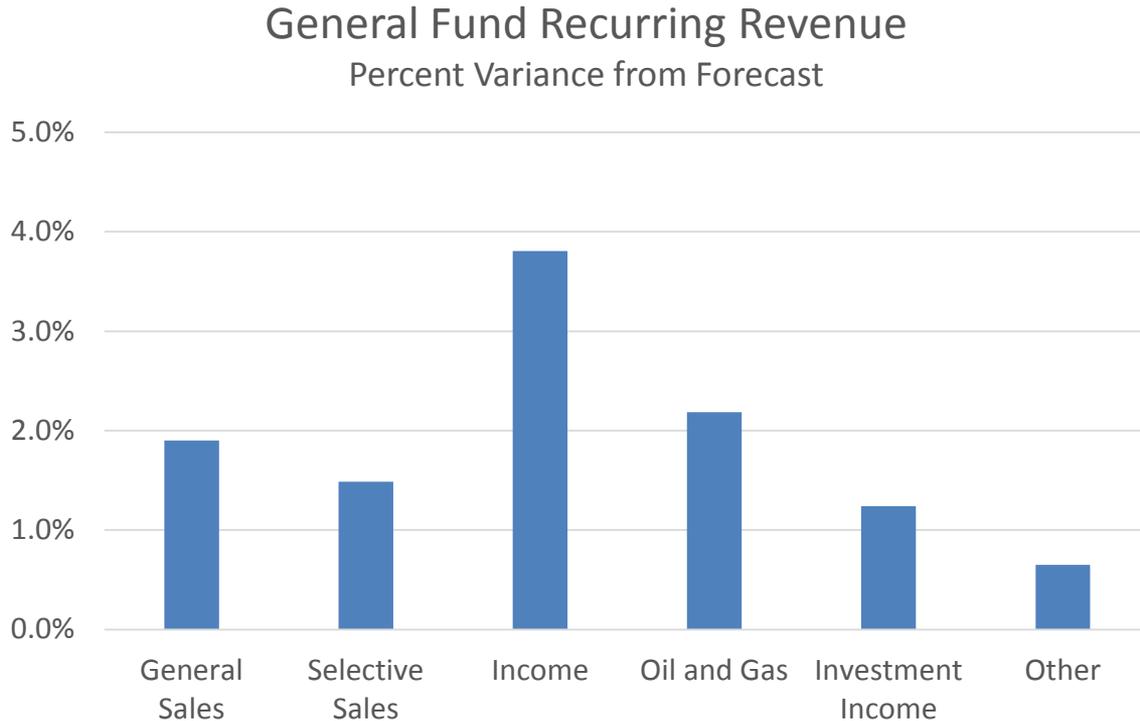
- Prices stabilizing at low levels
- Oil production growth positive, NG production growth flat
- Drilling/Permits down
 - Oil rig count fell by half since July
 - Permits down by 16% in FY15
- Slower production will support price growth in long-term

General Fund Financial Summary

General Fund (\$ millions)	FY2015	FY2016
Beginning Balance	\$637.5	\$478.6
Recurring Revenue		
February 2015 Forecast	\$6,114.7	\$6,234.1
2015 Sessions		\$7.0
Total Recurring Revenue	\$6,114.7	\$6,241.1
Total Recurring Appropriations	-\$6,160.7	-\$6,234.6
Other General Fund Revenue & Spending*	-\$112.9	-\$32.7
Ending Balances	\$478.6	\$452.4
Reserves as a Percent of Recurring Appropriations	7.8%	7.3%
*Includes nonrecurring and revenues and appropriations to/from reserve funds		

- Target balance of 10% prudent
- Balance includes ~\$200 million from tobacco settlement permanent fund (about 3%)

Revenue Tracking



- GRT, CIT ahead of expectations
- Premiums tax benefited from one-time increase due to audits
- O&G revenues began the year stronger-than-expected

Revenue Measures Passed and Signed

Sunset Extensions:

- GRT deduction for military acquisition programs through FY25 (S448)
- Sustainable building TC to 2026 (S279)
 - Residential credit capped and reduced
 - New water conservation requirements

Economic Development:

- Assignment of film production tax credit (H216)
- Limit expenditures eligible for film credit and incentivize NM activities (S565)
- Expand eligibility for the administrative & accounting services GRT deduction (S302)

Revenue Measures Passed and Signed

Tax Administration:

- New hold harmless to local governments (H581/S669)
- Independent administrative hearings office (S356)
- TRD information sharing with NMFA (H475)

Other:

- Increase distributions to STPF (H236)
- 2015 Tribal compact; increased rates, clarify treatment of “free play” and “complementaries” (SJR19)

2015 Special Session

House Bill 2

- Angel Investment Credit
- Unreimbursed medical expenses deduction
- Headquarters incentive
- DOD R&D Gross Receipts Deduction
- Border Zone Trade Support Gross Receipts
- Technology Jobs Tax Credit
- Double-Taxing of Gasoline and Special Fuels

2015 Special Session

U.S. DOD GRT Deduction Estimating Methodology

- LFC assumed 100% of gross receipts were taxable; range illustrates effect if 25% or 100% of contracts are renewed each year
- DFA assumed existing deductions limit fiscal impact: sales for resale, sales of tangible goods to U.S. govt; Used average deduction rate for R&D sector
- Industry representatives note cost considerations prevent 100% of contracts renewal

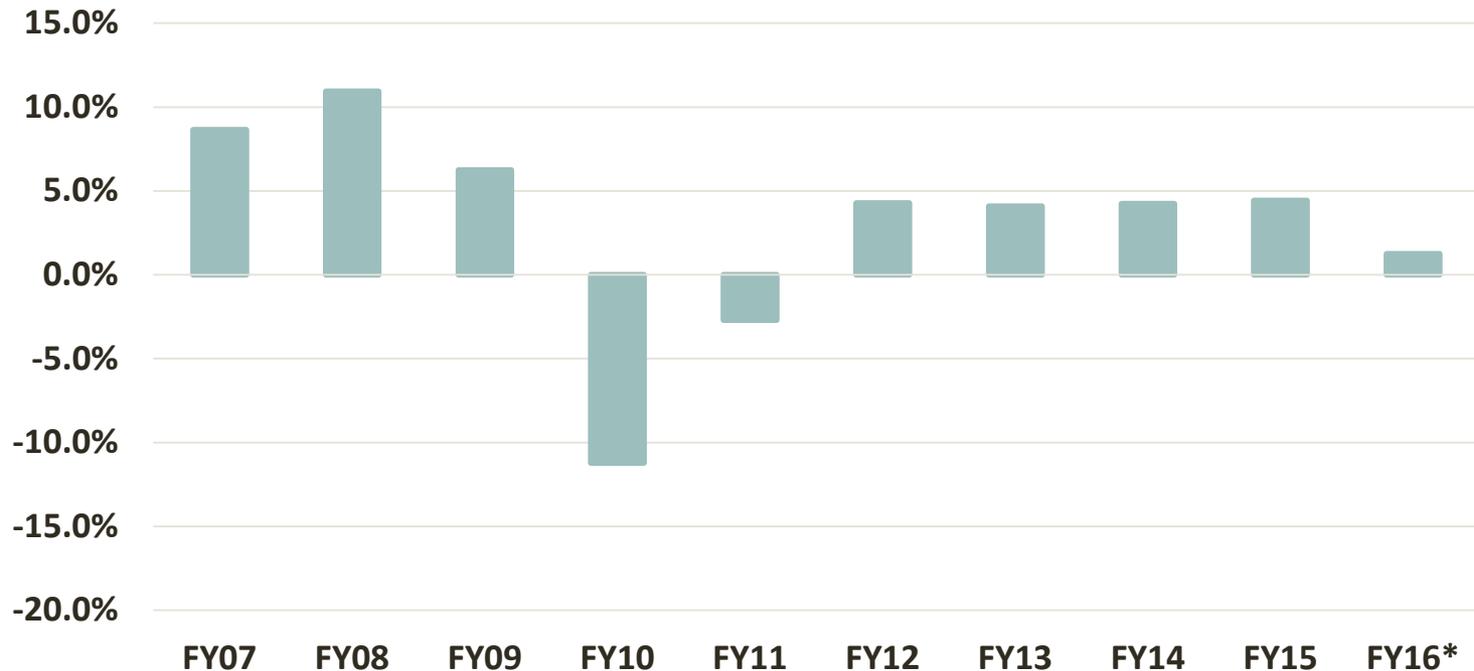
2015 Revenue Measures: General Fund Fiscal Impact

2015 Sessions - Legislation with Revenue Impacts		FY16	FY17	FY18	FY19
(thousands of dollars)					
S448	Military Acquisition Gross Receipts End Dates	-	-	-	-
H581/S669	Local Option GRT Distribution Adjustments	(535)	(535)	(535)	(535)
H236	Increase STPF Inflows	-	-	100	200
S302	Admin & Accting Services Gross Receipts	(420)	(420)	(420)	(420)
SJR19	Gaming Compact Approval*	10,000	9,400	9,700	16,300
S279	Sustainable Buildings Tax Credit	-	-	(5,000)	(5,000)
H216	Assignment of Film Production Tax Credits	NFI	NFI	NFI	NFI
S565	Limit Film Production Tax Credit	NFI	NFI	NFI	NFI
H2 SS	Tax Package	(1,977)	(3,621)	(4,598)	(5,928)
	Total	7,069	4,824	(753)	4,617

*Depends on timing of federal & tribal approval

General Fund Recurring Appropriations

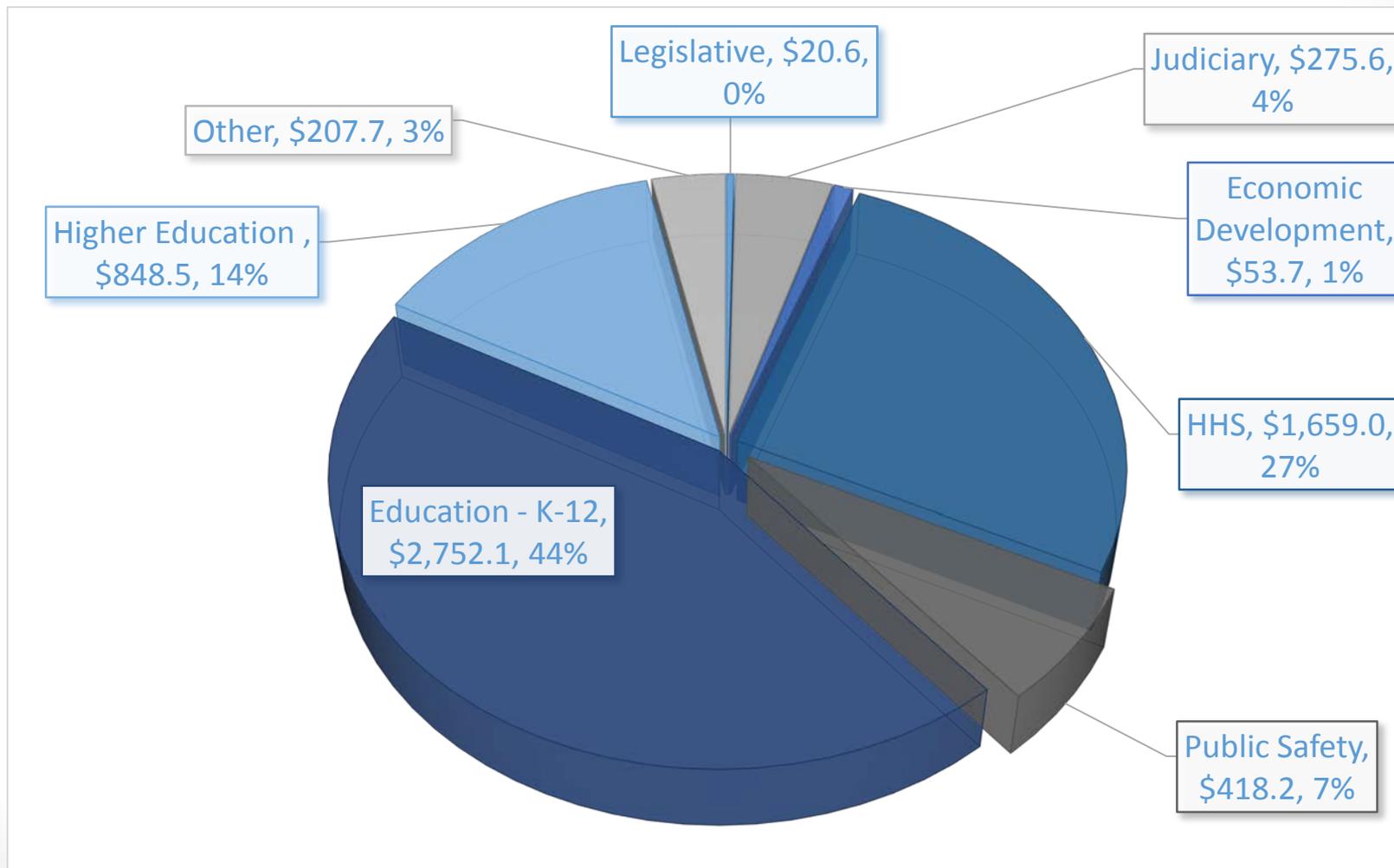
Annual Percent Change



- Steady growth FY12 through FY15 4%+ per year
- FY16 spending growth constrained by O&G revenue decline
- FY16 spending 6.4% above prior peak in FY09

FY16 - House Bills 1 & 2

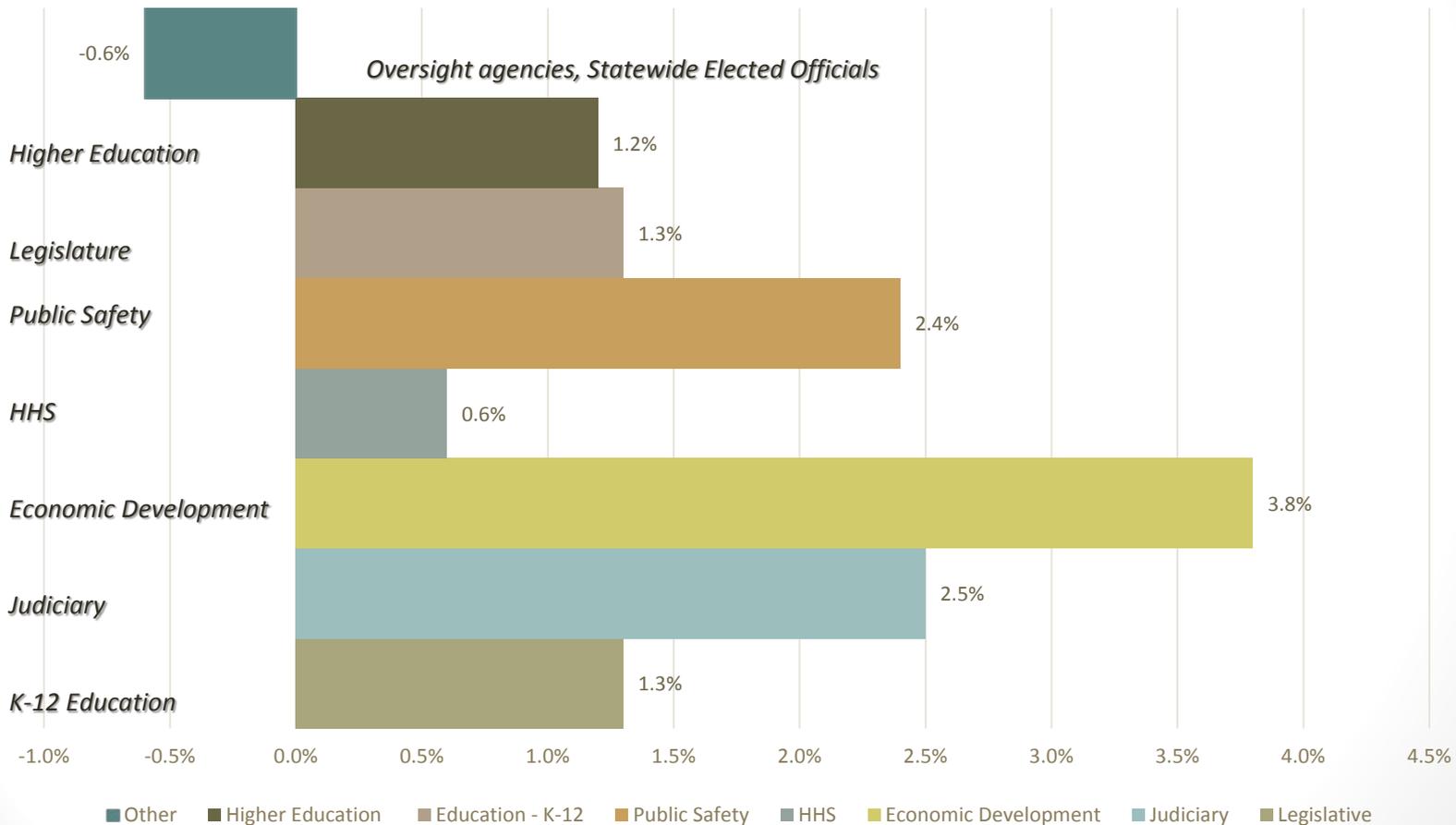
Feed Bill & General Appropriations Act



FY16 - House Bills 1 & 2

Feed Bill & General Appropriations Act

% General Fund Growth, Total Budget Growth 1.3%



FY16 Economic Development Initiatives

- Recurring
 - \$2 million for Job Training Incentive Program (JTIP)
- NonRecurring
 - \$50 million – Local Economic Development Act (LEDA)
 - \$5.5 million – JTIP
 - \$5.5 million – Higher Education Endowment
 - \$0.5 million – Spaceport
 - \$0.35 million – MainStreet
 - \$0.3 million – Tech Transfer

FY16 Public Education Funding Increases

- *Over \$8 million for recurring programs in “Below the Line” spending are non-recurring cash balances*
- *FY17 budget will necessitate General Fund increases to replace this funding*

		General Fund	Fund Balance	
Above the Line		30.7		1.30%
	At Risk	11.1		
	Enrollment	6.7		
	Fixed Costs	9.4		
	Other	3.5		
Below the Line		6.8	15.1	6.20%
	PreK	1.8	3.5	
	Drop Out Prevention	0	2	
	Teacher Pursing Excellence	1	1	
	Other	4	8.6	

FY16 – IT Systems

- Continue progress with upgrading agency systems, \$27.9 million
 - Public Safety
 - Children, Youth Families Dept – Protective Services enhancements
 - Corrections – Community Offender Mgmt
 - Dept of Public Safety – Computer Aided Dispatch
 - Judiciary – Jury Mgmt system upgrades
 - Business Interfaces
 - Dept of Info Tech – One Stop Business Portal
 - Dept of Finance & Administration – Budgeting software; CAFR
 - State Personnel Office – Digitize Personnel Records
 - Secretary of State – Online voter registration
 - Motor Vehicle – modernization project

Use of Fund Balances Will Put Pressure on Future Budgets

- One time use of Tobacco revenues for Medicaid in FY16, over \$20 million (SB 270)
- Temporary Assistance to Needy Families (TANF), use in PreK other programs
- State Parks – use of Trail Safety Funds
- **Over \$55 million in one time fund balances will need replacing in FY17**

First Special Session - Capital Outlay Bill

- **Senate Bill 1**
- *\$295 million total spending:*
 - *\$212.3 million STB's*
 - *\$52.7 million Other State Funds*
 - *\$30 million General Fund*
- *\$70.9 million local road projects*
- *\$12.5 million LEDA*
- *\$26.9 million for HED projects*
- *\$100.7 million Other Statewide projects.*
- *\$84 million local projects*

Summary & Conclusions

- Bipartisan compromise yielded highly productive fiscal policies despite constrained finances
- Successful prioritizing of limited new resources:
 - Public education
 - Economic development
 - Public safety
 - Information systems
- Important tax administration and policy measures
- Large capital outlay package targeted critical highway infrastructure