

Budget and Tax Policy Accomplishments of the 2013 Legislative Session

Presented to the
Revenue Stabilization and Tax Policy Committee
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Major Challenges

- Federal spending cuts – revenue and budget implications
- Tax incentive growth
- Potential federal education spending cuts (MOE)
- Statute requiring increased pension contributions
- Pension programs facing insolvency
- UI program facing insolvency
- Employee health plan facing insolvency
- Critical IT upgrades

FY14 Budget Summary

- Total recurring spending = \$5.9 billion, up \$235 million or 4.2%
- Public Education up \$112 million:
 - \$15 million for reforms including Early reading initiative, School to work/college transition
- Early childhood programs: Increased \$21 million
- Medicaid expansion:
 - Increased federal funds over \$500 million annually
 - 80,000 low-income adults covered
- Economic development programs:
 - Tourism advertising; LEDA; JTIP; OSE litigation
- General Fund reserves exceed 10%

Other Important Budget Measures

- Unemployment insurance reform:
 - Contributions tied more closely to claims
 - Fund solvency assessment
 - Surcharge for claims in excess of contributions
- Pension solvency:
 - Reduced, delayed COLA's
 - Increased employee contributions
 - Long-term solvency not assured
- Railroad investment tax incentive
- Lottery scholarship stopgap funding

Capital Outlay Appropriations

- Executive/Legislative compromise allocated 60% to statewide priorities
- Total funding \$500 million:
 - \$200 million for public schools
 - \$123 million for statewide projects including Higher Ed
 - \$96 million for local projects
 - Earmarks for Water, Colonias, Tribal projects
- Projects included:
 - SJ College of Energy; CRRUA; Water supply infrastructure; Fire mitigation; Voting system modernization
- \$30 million additional reauthorized

2013 Tax Reform Package

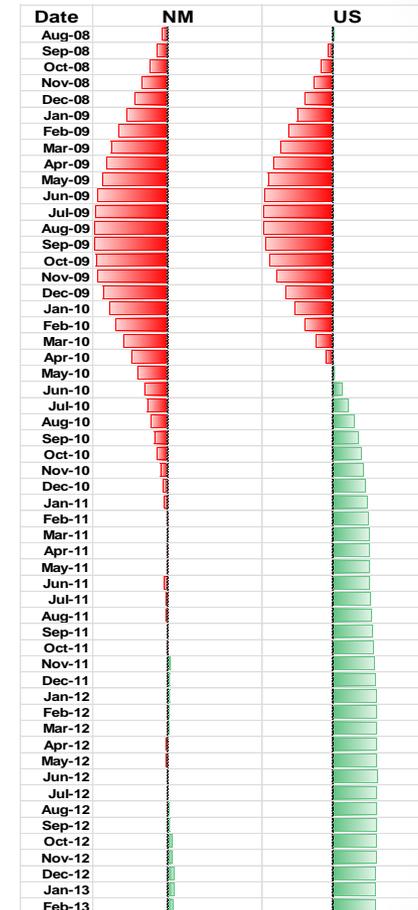
- Corporate Income Tax Modernization:
 - Reduced Corporate income tax rate from 7.6% to 5.9%
 - Single Sales Factor apportionment for Manufacturers
- GRT deduction for manufacturers narrowed to exclude power generation, natural resource processing and food processing
- Mandatory combined reporting for “big box” retail operations
 - Exception for those with large non-retail operations
- Tax Incentive Reforms:
 - Improved High-Wage Jobs Credit targeting
 - Film credit increase, targeting, streamlining
- Phase-out of Hold Harmless distributions
 - 2-year delay, 15-year phase-out
 - Local option tax rate available to offset impacts
 - Small cities and counties have option to continue to receive distributions or to impose local option tax

Impacts of Hold Harmless Phase-out

- 12 counties affected:
 - Total payments were \$23 million in FY12
 - Average 4.3% of budgets with a high of 12.6% (McKinley)
 - Average rate increase needed to offset 0.06% with high of 0.14% (McKinley)
- 20 cities affected:
 - Total payments \$97 million
 - Average 9.9% of budgets, high of 18.5% (Silver City)
 - Average rate increase needed to offset 0.334% with high of 0.65% (Espanola)

Need for Tax Reform: Diversifying NM Economy

- NM continues to lag the national economy:
 - Per capita income is only 82% of the average
 - Ratio has not changed materially in 25+ years
- Status quo outlook is not promising:
 - Tougher competition for federal spending;
 - Tougher competition for O&G investment; risk of cyclical downturn
- NM faces a critical need to diversify the state's economy:
 - Manufacturing intensity well below average
 - Potential loss of skilled workforce



Source: Federal Reserve Bank of Philadelphia

Revenue Bills Fiscal Impacts

General Fund Impacts (Million dollars)

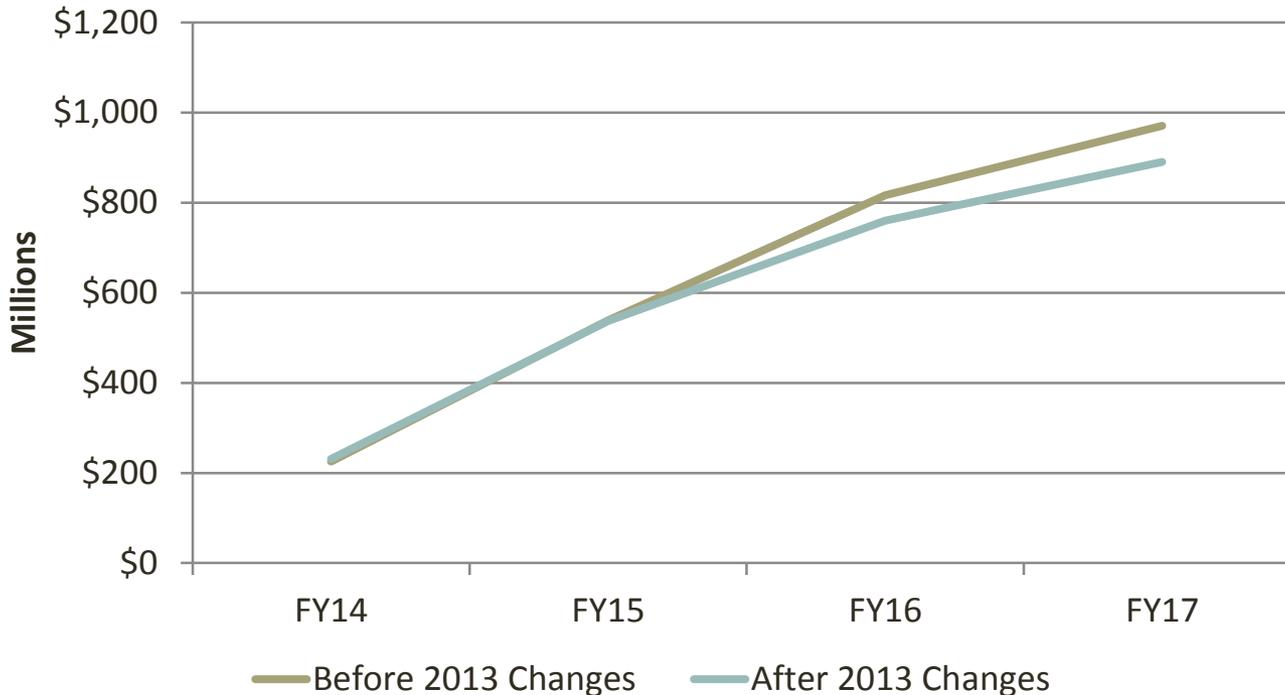
	FY14	FY15	FY16	FY17
Locomotive fuel deduction (HB 120)	(\$3.9)	(\$4.0)	(\$4.1)	(\$4.3)
Credit for taxes paid to other states (HB 172)	\$1.4	\$1.5	\$1.5	\$1.6
Film Credit/Corporate Reform Package (HB 641)	\$9.7	\$5.5	(\$47.4)	(\$70.9)
Small winegrower incentive (SB 116)	(((\$0.1)	(\$0.2)	(\$0.4)	(\$0.4)
Sustainable buildings credit (SB14)	(\$0.7)	(\$2.9)	(((\$3.7)	(\$3.8)
State aviation fund uses (SB 2)	(\$1.0)	(\$1.0)	(((\$1.0)	(1.1)
Microbrew incentive (SB 81)	(\$0.2)	(\$0.6)	(\$0.7)	(((\$0.8)
Total*	\$5.2	(\$2.1)	(\$56.5)	(\$80.3)
*Includes other, smaller impacts.				

Other important tax bills:

- HB 315: GRT consumables deduction liability transfer
- SB 557: Rural jobs tax credit reforms

Affordable Tax Reform

Cumulative General Fund Recurring Revenue Growth



- Game-changing tax reform is affordable even under “static” scoring
- Less than 10% of forecast revenue growth is earmarked to tax reform
- Increased growth of less than 0.5% would fully offset all impacts

FY13 General Fund Revenue Tracking

	Forecast Growth	Updated Expectation
General Sales Taxes	2.9%	0.2%
Selective Sales Taxes	1.1%	-1.0%
Income taxes	1.1%	3.4%
Oil & Gas Taxes and Royalties	-12.5%	-12.5%
Total Recurring Revenue	-1.6%	-2.4%

- Weakness vs. forecast mostly due to refundable tax credits and sequestration cuts to Federal leasing payments
- Low inflation, weak job market imply low sales and payroll growth
- O&G still strong despite reduced FML payments
- Housing permits up 20%
- FY14 growth of 3.9% forecast

Trend in Taxable Gross Receipts

Taxable Gross Receipts By Industry	12 Month Growth vs Year ago	Share of Total
Mining and Oil and Gas Extraction	9.3%	7.4%
Utilities	-1.3%	4.3%
Construction	4.5%	11.1%
Manufacturing	12.9%	3.9%
Wholesale Trade	4.1%	4.7%
Retail Trade	2.2%	24.6%
Information and Cultural Industries	2.4%	4.8%
Real Estate and Rental and Leasing	21.0%	2.0%
Professional, Scientific and Technical Services	-8.9%	8.6%
Admin and Support, Waste Mgt and Remed	-14.0%	3.4%
Health Care and Social Assistance	-0.1%	4.3%
Accommodation and Food Services	3.6%	7.0%
Other Services (except Public Admin)	2.7%	9.9%
Total:	1.9%	100.0%

Source: NM TRD, RP-500.

Future Budget Issues and Challenges

- Sequestration spending cuts over \$70 million per year
- Maintenance of Effort (MOE)
- Pension solvency ratio will decrease under new GASB rules
- Medicaid federal match may decrease
- Capital Outlay Reform
- Local government budgets

Tax Policy Issues and Challenges

- Independent hearing officers and other administrative reforms
- New jobs tax incentive
- R&D tax relief
- Small business tax relief
- Property tax lightning
- Income tax exemption for military pensions
- Marketplace Fairness Act
- Dynamic scoring