

Review of July 2011 Consensus General Fund Revenue Estimates

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Executive Summary

- A summary of the July 2011 forecast revisions is presented in Table 1.
- The July forecast revisions increase FY11 revenue by \$110.1 million, FY12 revenue by \$120 million and FY13 revenue by \$164.8 million.
- After this update, General Fund revenue will grow by almost 5% per year in FY12 and FY13. Growth of almost 10% in FY11 was due in part to tax increases passed in 2010.

Table 1
July 2011 Consensus General Fund Revenue Forecast
(Million Dollars)

	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>
<i>Recurring revenue:</i>					
December 2010 Estimates	5,164.3	5,389.7	5,615.2	5,827.4	6,056.7
2011 Legislation	-	23.5	22.3	23.2	28.2
July 2011 forecast revisions	110.6	120.2	164.8	189.6	186.0
July 2011 Estimates	5,274.9	5,533.4	5,802.3	6,040.2	6,270.8
Annual percent change	9.9%	4.9%	4.9%	4.1%	3.8%
<i>Non-recurring revenue:</i>					
	66.8	18.3	(3.3)	(0.9)	-
Total revenue	5,341.7	5,551.7	5,799.0	6,039.3	6,270.8

- The primary legislative change from the 2011 session was the reduction of film production tax credits. Although this change will increase revenue by about \$20 million per year beginning in FY12, a sharp increase in film credit claims reduced FY11 revenue by \$40 million.

- The FY11 & FY12 increases are primarily due to gross receipts tax and oil & gas revenues.
- The uptick in FY13 is due to higher corporate income tax and oil & gas revenues.
- Natural gas is expected to average \$5.60 in FY12 and \$6.20 in FY13, up from \$5.20 in FY11. Oil is forecast at \$87.80 in FY12 and \$89.50 in FY13.

Recent Developments Affecting the Revenue Outlook:

Several economic reports published since early July indicate a slower-growing economy:

- Global Insight now expects U.S. growth for calendar year 2011 to be less than 2%, almost a full percentage point lower than the previous forecast.
- The Stock market has fallen by 15% and only partially recovered
- Crude oil prices have fallen by more than \$10 per barrel and natural gas prices by about \$0.40 per thousand cubic feet since early July.

Some good news has also been reported:

- Employment growth has increased and unemployment claims are falling.
- Corporate earnings for the latest quarter were higher-than-expected.

GI's latest summary concludes that the outlook is for weak growth but not a recession.

Although these reports are clearly a cause for concern, the July forecast included some conservatism in the outlook for major revenues. The FY12 growth rate for GRT was only 3.6%, while the PIT forecast growth was only 3.8%. In addition, energy prices appear to have stabilized. Assuming normal growth from seasonal factors and even with a slowly recovering economy, the current level of prices is only slightly below that included in the July forecast.

General Fund Financial Summary:

Table 2 presents the General Fund Financial Summary updated to include the July revenue estimates.

- Thanks to the increased revenue forecast, revenue will exceed spending in FY11 by \$110.5 million and in FY12 by \$123.1 million.
- These amounts will increase total reserves to \$489.9 million at the end of FY12. This represents 9.0% of recurring appropriations.
- Although a dramatic improvement, this amount is still \$52.9 million short of the 10% reserve target New Mexico should strive to maintain.
- Not shown in the table are outlays of as much as \$103 million that may be needed to reimburse the federal government for past Medicaid payments. These amounts would be non-recurring appropriations.
- Also not shown in the table is the “new money” calculation for FY13. New money refers to the difference between recurring FY13 revenue of \$5,802.3 million and recurring FY12 appropriations of \$5,428.6 million, a net of \$373.7 million.

Although there are many uncertainties in this revenue outlook, the fact that the state is seeing the return of revenue growth means the focus of budget negotiations will shift to how we manage that growth. As we move forward, the Martinez Administration will be focused on three major priorities in budget policy:

- Restrained spending growth that prioritizes critical needs
- Tax reform to stimulate growth of the private sector and
- Maintaining adequate reserves to insure the financial viability of the state.

Table 2

General Fund Financial Summary			
July 2011 Consensus Revenue Estimate			
(Dollars in Millions)			
	Audited FY10	Estimated FY11	Estimated FY12
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue	4,798.6	5,274.9	5,533.4
Nonrecurring Revenue	479.9	66.8	18.3
TOTAL REVENUE	5,278.5	5,341.7	5,551.7
APPROPRIATIONS			
Recurring Appropriations	5,358.0	5,211.7	5,428.6
Nonrecurring Appropriations	93.2	19.5	-
TOTAL APPROPRIATIONS	5,451.1	5,231.2	5,428.6
Transfers from/(to) other funds	172.6	-	-
Transfer to/from General Fund Operating Reserve	(0.0)	110.5	123.1
GENERAL FUND OPERATING RESERVE			
Beginning Balance	37.5	36.2	145.2
Reversions			
Appropriations	(1.2)	(1.5)	-
Transfers In From Appropriation Account	-	110.5	123.1
Transfers Out To Appropriation Account	(0.0)	-	-
Ending Balance	36.2	145.2	268.3
Ending Balances as a Percentage of Prior Year Recurring Appropriation	0.6%	2.7%	5.1%
STATE SUPPORT RESERVE			
Beginning Balance	1.0	1.0	1.0
Ending Balance	1.0	1.0	1.0
APPROPRIATION CONTINGENCY FUND			
Beginning Balance, Excluding Education Reform	11.5	29.6	6.2
Expenditures	(9.9)	(28.8)	(16.0)
Revenue, Transfers and Reversions	28.0	5.3	5.3
Ending Balance, Excluding Education Reform	29.6	6.2	(4.4)
Education Reform, Beginning Balance	19.0	53.0	44.5
Transfers In	40.0	-	-
Transfers Out	(6.0)	(8.5)	-
Ending Balance, Education Reform	53.0	44.5	44.5
Ending Balance	82.7	50.8	40.1
TAX STABILIZATION RESERVE			
Beginning Balance	198.7	26.0	26.0
Transfers Out	(172.6)	-	-
Ending Balance	26.0	26.0	26.0
Ending Balances as a Percentage of Prior Year Recurring Appropriation	0.4%	0.5%	0.5%
TOBACCO SETTLEMENT PERMANENT FUND			
Beginning Balance	121.0	132.0	142.9
Transfers In, December 2008 Consensus Estimate	40.9	40.0	39.5
Transfers Out	(40.9)	(40.0)	(39.5)
Gains or (Losses)	11.1	10.8	11.7
Ending Balance	132.0	142.9	154.6
TOTAL GENERAL FUND RESERVES			
	278.0	365.8	489.9
Reserves as a Percentage of Current-Year Recurring Appropriations	5.2%	7.0%	9.0%
Surplus/(deficit):			
10% reserve target	(257.8)	(155.4)	(52.9)