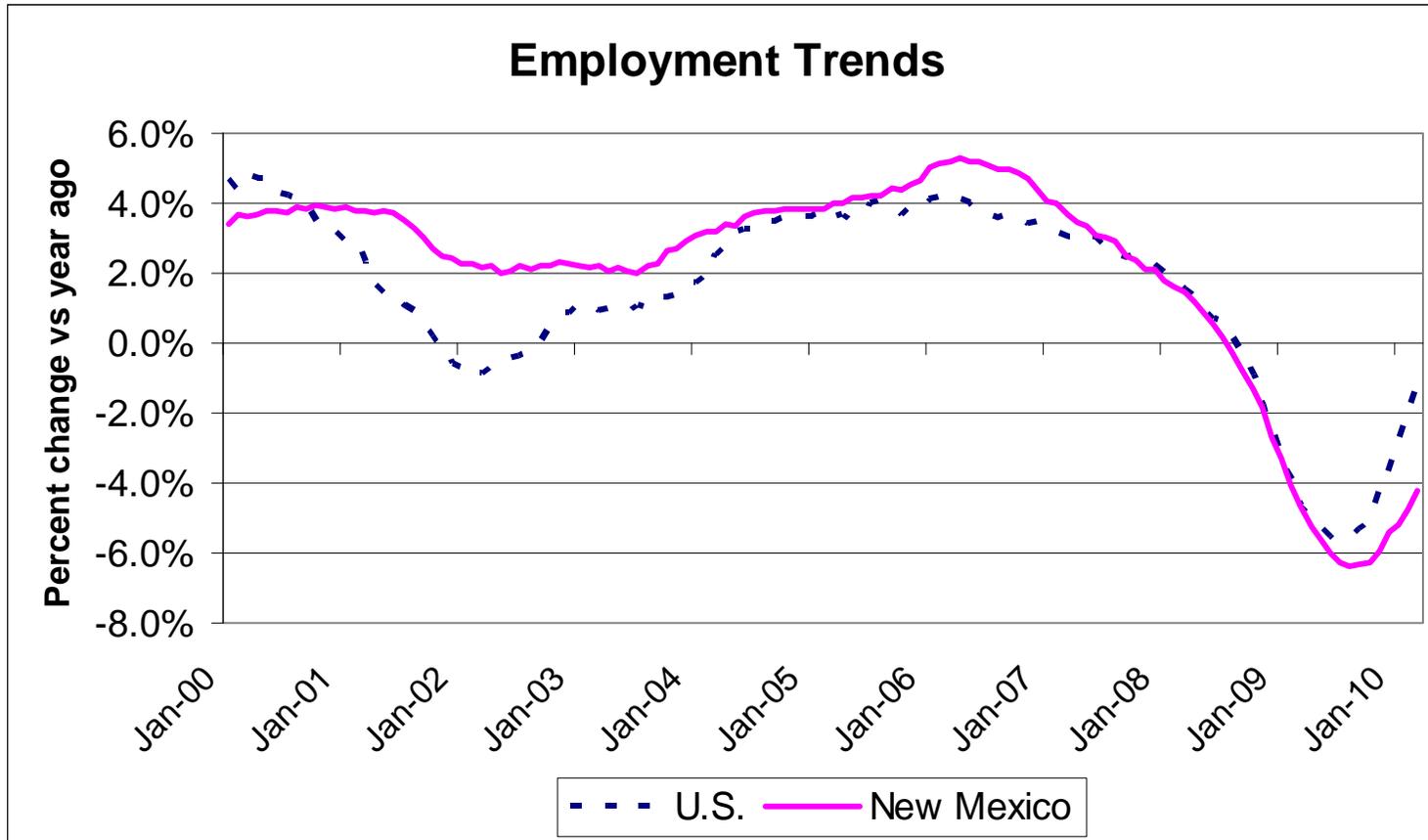


***General Fund Revenue Update  
and  
Budget Actions of the 2010 Legislative  
Sessions***

**Presentation to the  
Legislative Education Study Committee  
April 30, 2010**

**Thomas Clifford PhD, Chief Economist\*  
N.M. Legislative Finance Committee**

\*This presentation reflects work product of other LFC staff as well as members of the consensus revenue estimating group. Errors are the responsibility of the presenter.



- *NM job losses appear to have bottomed out at around 40,000 or 4.5%*
- *U.S. employment picture has begun to improve*
- *N.M. monthly survey data are less reliable than U.S.*

## U.S. AND NEW MEXICO ECONOMIC INDICATORS

	FY2010		FY2011		FY2012	
	Dec 09 Estimate	Apr 10 Estimate	Dec 09 Estimate	Apr 10 Estimate	Dec 09 Estimate	Apr 10 Estimate
<b><i>NATIONAL ECONOMIC INDICATORS</i></b>						
US Real GDP Growth (level annual avg, % yoy)*	0.4	0.8	2.4	3.1	3.5	3.3
US Inflation Rate (CPI, annual avg, % yoy)**	0.9	1.1	1.5	1.6	2.1	2.3
Federal Funds Rate (%)	0.13	0.14	0.78	0.74	2.69	2.69
<b><i>NEW MEXICO LABOR MARKET AND INCOME DATA</i></b>						
<b><i>New Mexico</i></b>						
NM Non-Agricultural Employment Growth (%)	(3.5)	(3.1)	1.6	0.7	2.0	1.5
NM Personal Income Growth (%)***	(0.5)	(0.1)	3.2	1.6	4.5	3.6
NM Private Wages & Salaries Growth (%)	(3.1)	(3.3)	3.8	2.9	4.1	4.1

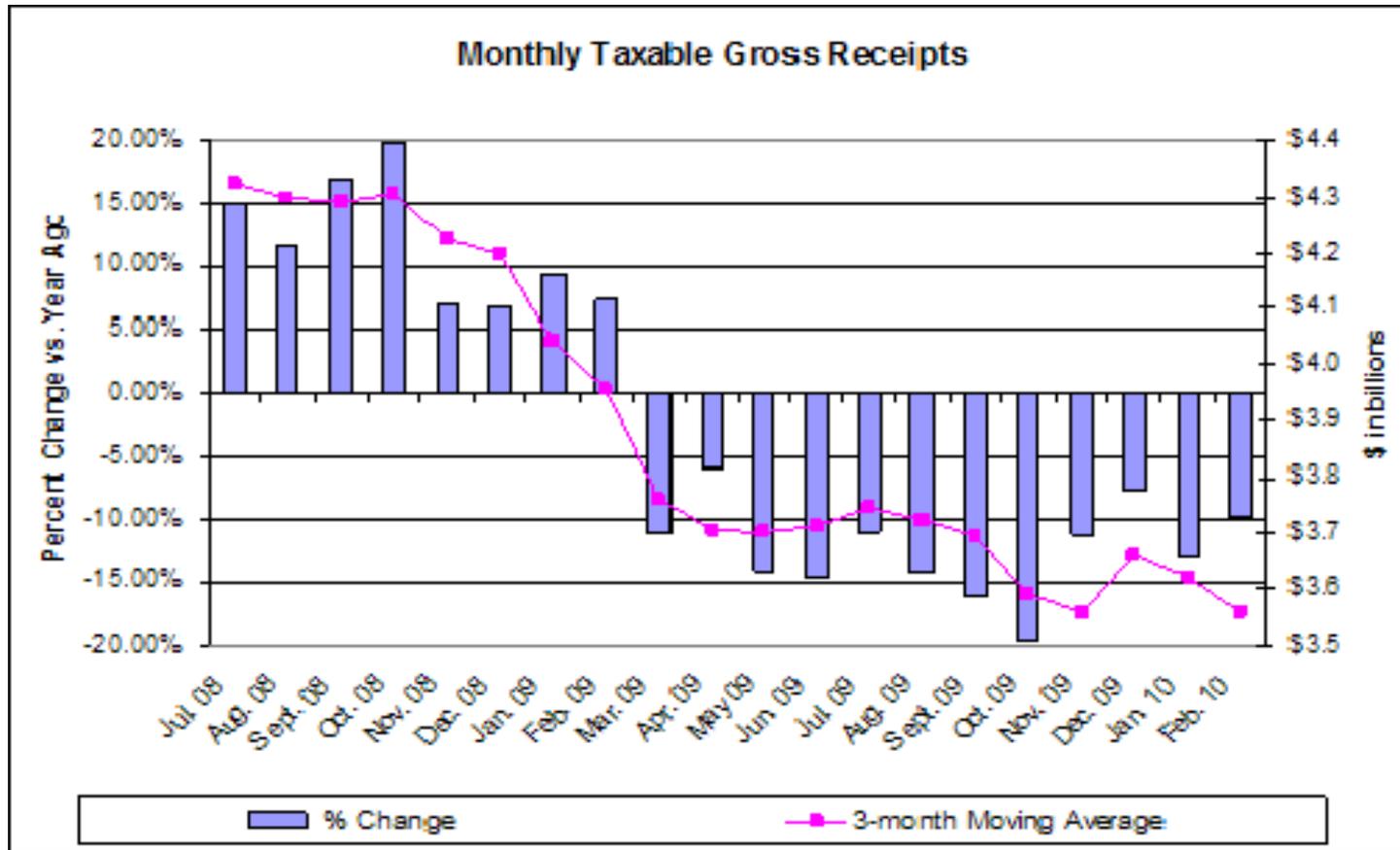
\*Real GDP is BEA chained 2005 dollars, billions, annual rate.

\*\*CPI is all urban, BLS 1982-84=1.00 base.

\*\*\*Personal Income growth rates are for the calendar year in which each fiscal year begins.

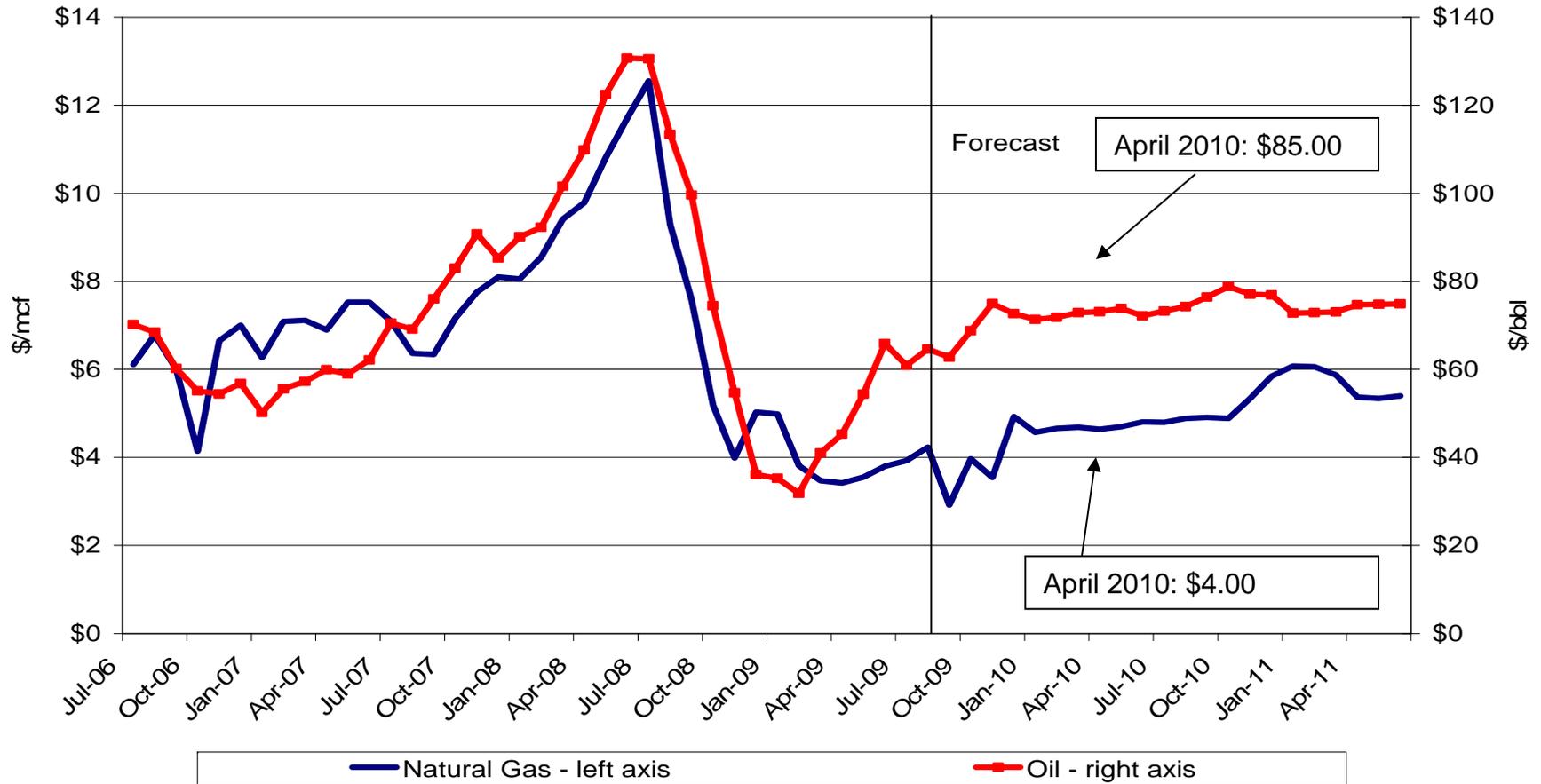
Sources: April Global Insight, March FOR-UNM BBER

- *U.S. outlook hasn't changed much since December*
- *N.M. recovery postponed*



- *Taxable gross receipts are down by more than 10% since March 2009*
- *All business sectors are affected, Construction is down over 20%*

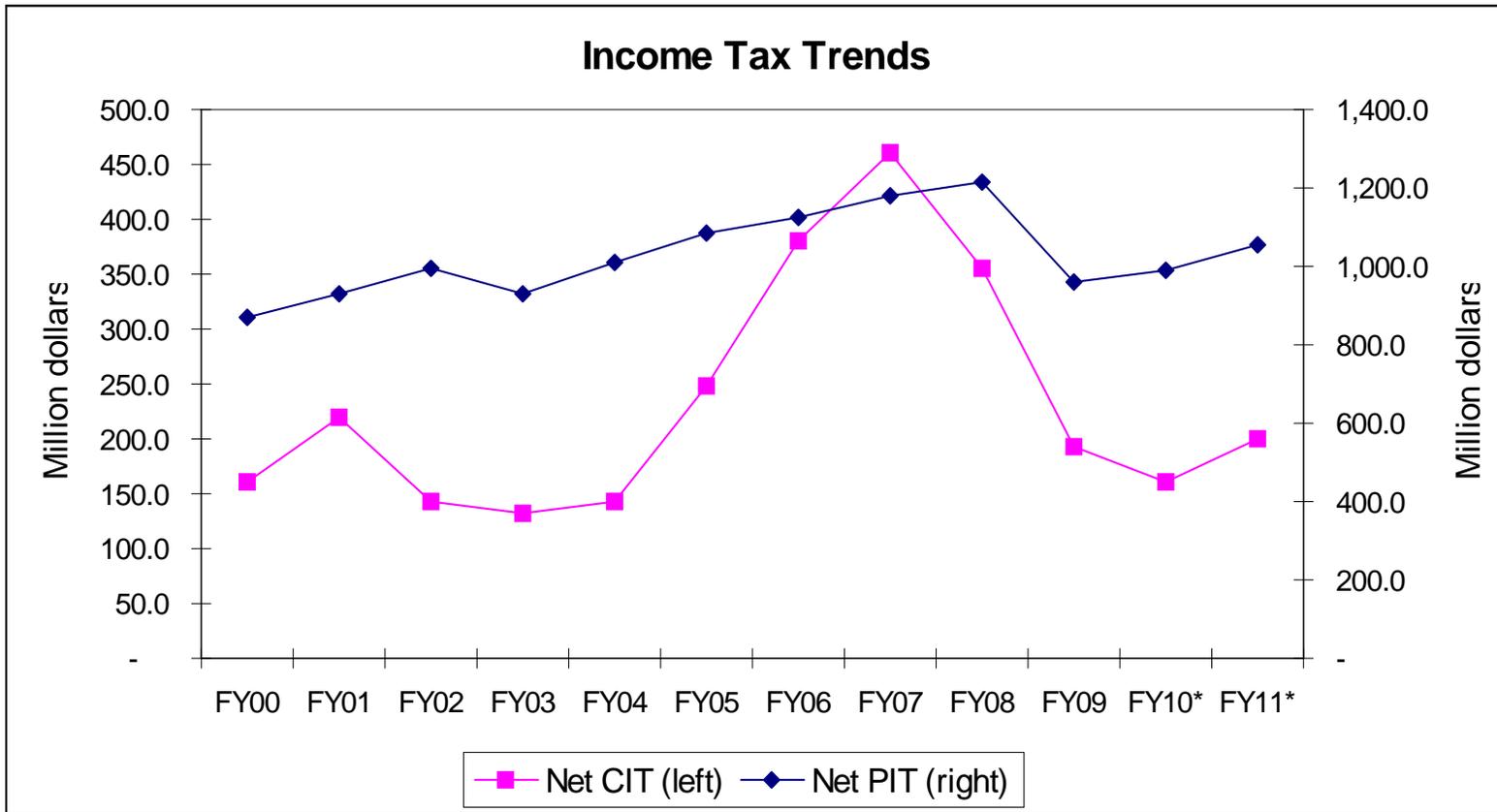
### New Mexico Oil and Gas Prices



#### December 2009 Consensus forecast:

- Oil taxable value: \$70.00 FY10, \$75.00 FY11
- Gas taxable value\*: \$4.30 FY10, \$5.40 FY11

\*Includes value of natural gas liquids, currently higher than “dry gas” value



- *Corporate earnings fell due to recession, collapse of oil & gas prices*
- *Film credits increased from zero to \$75 million per year*
- *Personal income tax fell by 16% in 2009*

## December 2009 Consensus General Fund Revenue Outlook

(million dollars)

	<b><u>FY09</u></b>	<b><u>FY10</u></b>	<b><u>FY11</u></b>	<b><u>FY12</u></b>	<b><u>FY13</u></b>	<b><u>FY14</u></b>
February 2009 Revenue Estimates	5,727.0	5,485.1	5,756.1	5,992.3	6,180.6	6,397.0
August 2009 Revisions	(309.1)	(433.1)	(358.3)	(331.5)	(352.7)	(409.4)
<u>October/December 2009 Revisions</u>	<u>(98.3)</u>	<u>(228.8)</u>	<u>(276.9)</u>	<u>(234.9)</u>	<u>(209.8)</u>	<u>(179.0)</u>
<b>Total Recurring Revenue</b>	<b>5,319.6</b>	<b>4,823.3</b>	<b>5,120.8</b>	<b>5,425.8</b>	<b>5,618.1</b>	<b>5,808.5</b>
Annual percent change	-11.6%	-9.3%	6.2%	6.0%	3.5%	3.4%

- *Cumulative FY08 - FY10 decrease now 20%, \$1.2 billion in annual revenue*
- *6% growth forecast in FY11 and FY12, FY08 level not reached until FY15*

## December 2009 Forecast Annual Changes by Revenue

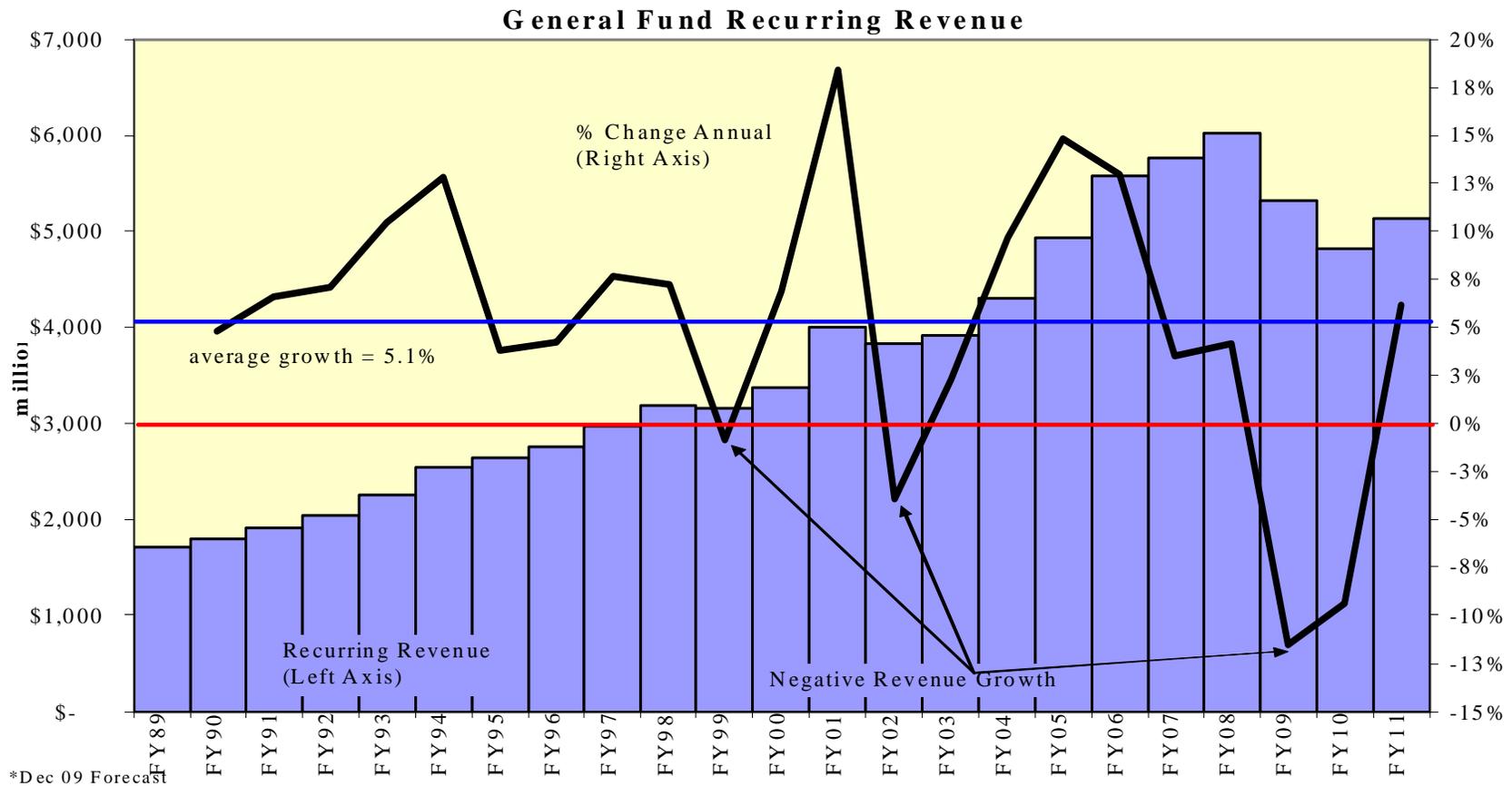
(million dollars)

	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
Gross receipts tax	(26.5)	(129.9)	54.0	97.0	87.0	85.0
Selective sales taxes	4.6	(10.5)	24.4	15.8	10.8	13.0
Personal income tax	(255.1)	31.0	67.5	57.0	45.0	46.0
Corporate income tax	(192.1)	(2.5)	40.0	50.0	40.0	30.0
Energy-related revenues	(252.3)	(292.0)	100.4	30.7	19.3	18.1
Investment earnings	31.2	(47.4)	4.3	0.9	(32.5)	(16.4)
Other revenues	(5.7)	(44.9)	6.9	53.6	22.6	14.7
<b>Total Recurring Revenue</b>	<b>(695.8)</b>	<b>(496.3)</b>	<b>297.5</b>	<b>305.0</b>	<b>192.3</b>	<b>190.4</b>

### Percent Change vs. Prior Year

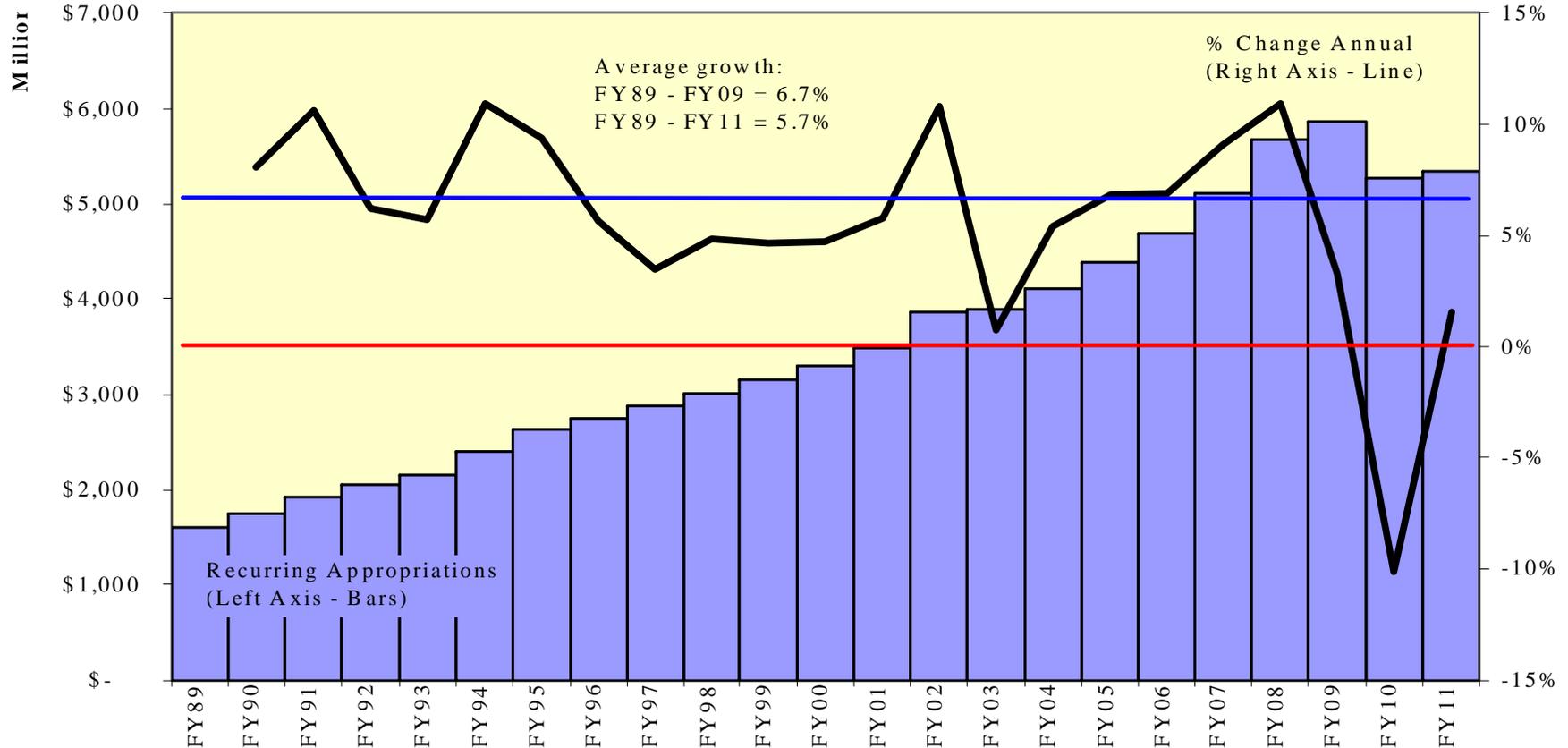
Gross receipts tax	-1.4%	-7.1%	3.2%	5.5%	4.7%	4.4%
Selective sales taxes	1.2%	-2.6%	6.2%	3.8%	2.5%	2.9%
Personal income tax	-21.0%	3.2%	6.8%	5.4%	4.0%	4.0%
Corporate income tax	-54.2%	-1.5%	25.0%	25.0%	16.0%	10.3%
Energy-related revenues	-20.4%	-29.7%	14.5%	3.9%	2.3%	2.1%
Investment earnings	4.7%	-6.9%	0.7%	0.1%	-5.0%	-2.7%
Other revenues	-2.0%	-15.7%	2.9%	21.7%	7.5%	4.5%
<b>Total Recurring Revenue</b>	<b>-11.6%</b>	<b>-9.3%</b>	<b>6.2%</b>	<b>6.0%</b>	<b>3.5%</b>	<b>3.4%</b>

- *FY09 decreases in PIT, CIT, O&G*
- *FY10 in GRT, O&G*
- *FY11 growth in O&G, PIT, CIT, GRT, Sales*



- *FY05 – FY06 growth of 10%+ more than double the long-term trend*
- *Cumulative reduction in FY09 & FY10 now over 20%*
- *Long-term compound growth reached 6.9% in FY08, 5.1% in FY10*

### General Fund Recurring Expenditures

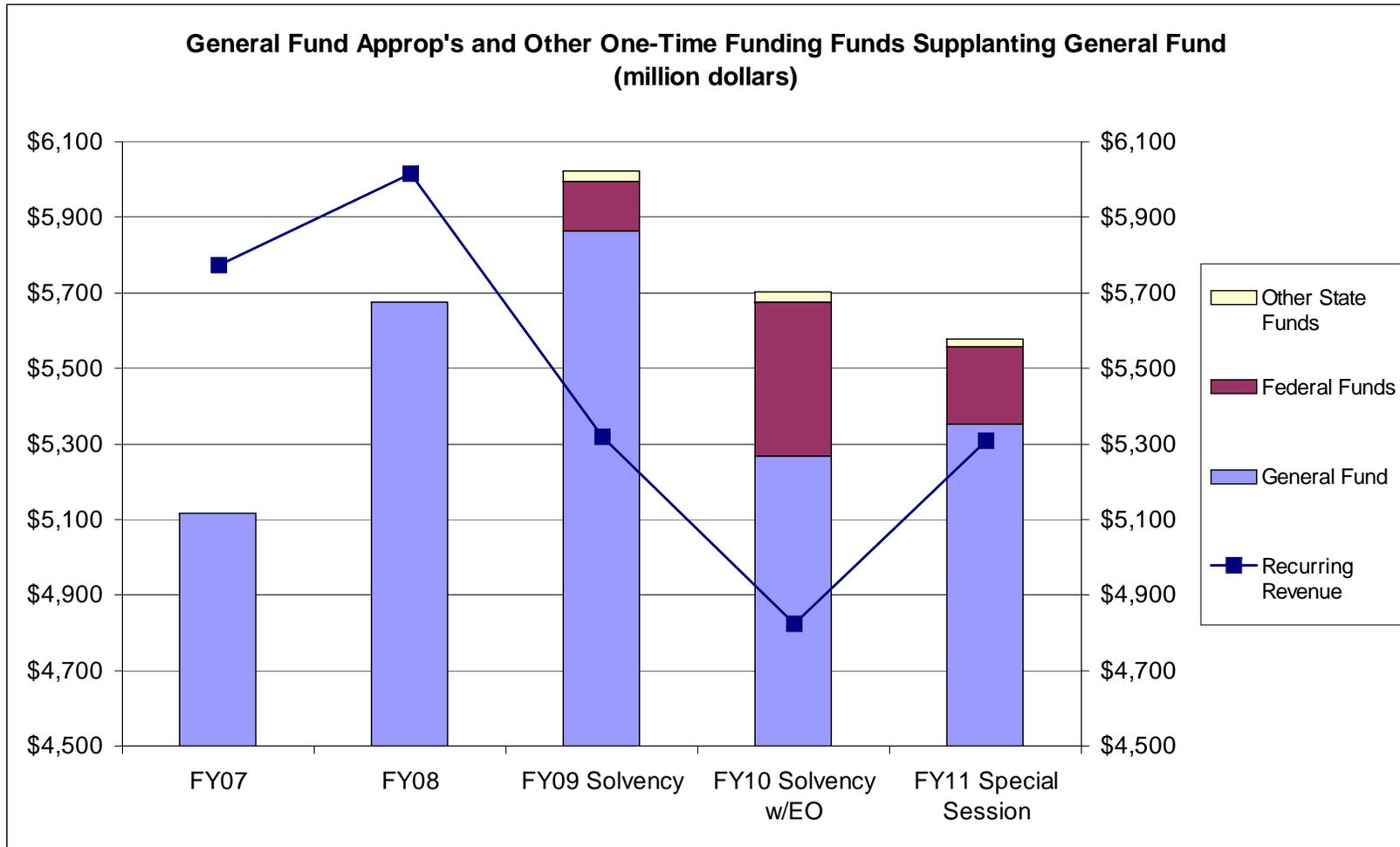


- *FY10, FY11 down 10% from peak levels of FY09, revenue is down 20%*
- *Even after cuts, long-term spending growth = Personal Income growth*

LFC Revenue Tracking FY10  
 General Fund Revenue Accruals Through February  
 (Million dollars)

Revenue	Difference from Forecast
Gross receipts & compensating tax	(\$17.4)
Selective sales taxes	\$3.2
Net personal income tax	(\$74.9)
Net corporate income tax	(\$30.5)
Oil & gas taxes, royalties & bonuses	\$71.1
Investment income	(\$3.4)
Other	\$3.8
<b>Total recurring revenue</b>	<b>(\$48.0)</b>

- *Oil & gas higher than forecast, most others below forecast*
- *Year-to-date total revenue is \$48 million below forecast*
- *Significant improvement is needed to reach full year forecast*



- *FY11 total spending – including temporary funds – down 1.7% from FY10*
- *FY11 spending down 6.9% from FY09, down 1.7% from FY08, up 9% FY07*
- *FY11 spending exceeds revenue by \$277 million even after revenue increases*

**General Fund Approps. And Other State Funds & Federal Funds Supplanting General Fund:  
FY09-FY11  
(dollars in millions)**

	<b>FY11 Special Session with Vetoes</b>				<b>Change From FY10 Post-Solvency</b>		<b>Change From FY09 Post-Solvency</b>	
	<b>General Fund</b>	<b>Federal Funds</b>	<b>Other State Funds</b>	<b>Total</b>	<b>\$ Change</b>	<b>% Change</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Public Schools</b>	\$2,418.0	\$23.9		\$2,441.9	(\$44.4)	-1.8%	-\$146.8	-5.7%
<b>Higher Education</b>	\$788.3	\$10.9		\$799.2	(\$29.2)	-3.5%	-\$63.6	-7.4%
<b>Medicaid*</b>	\$664.1	\$168.2	\$22.3	\$854.6	\$6.5	0.8%	-\$21.5	-2.5%
<b>Other</b>	\$1,483.5	\$0.0		\$1,483.5	(\$57.6)	-3.7%	-\$210.0	-12.4%
<b>TOTAL</b>	<b>\$5,353.9</b>	<b>\$203.0</b>	<b>\$22.3</b>	<b>\$5,579.2</b>	<b>(\$124.7)</b>	<b>-2.2%</b>	<b>-\$441.9</b>	<b>-7.3%</b>

\*Includes general fund appropriations to HSD & DOH for the Developmentally Disabled Medicaid waiver program. Federal Funds shown are amounts used to supplant General Fund spending only. Total Federal Funds for Medicaid attributable to the stimulus programs are about \$283 million in FY10 and \$351 million in FY11.

\*\*The general fund total of \$5,269.6 includes \$87.2 million of executive orders and furloughs.

- *Public schools down 1.2% from FY10, 5.1% from FY09*
- *Higher ed. down 2.9%, 6.8%*
- *Medicaid down only slightly from FY09*
- *Other agencies down 12%*

**Revenue Measures Adopted in 2010 Regular and Special Sessions: Net Effect  
After Governor's Vetoes**

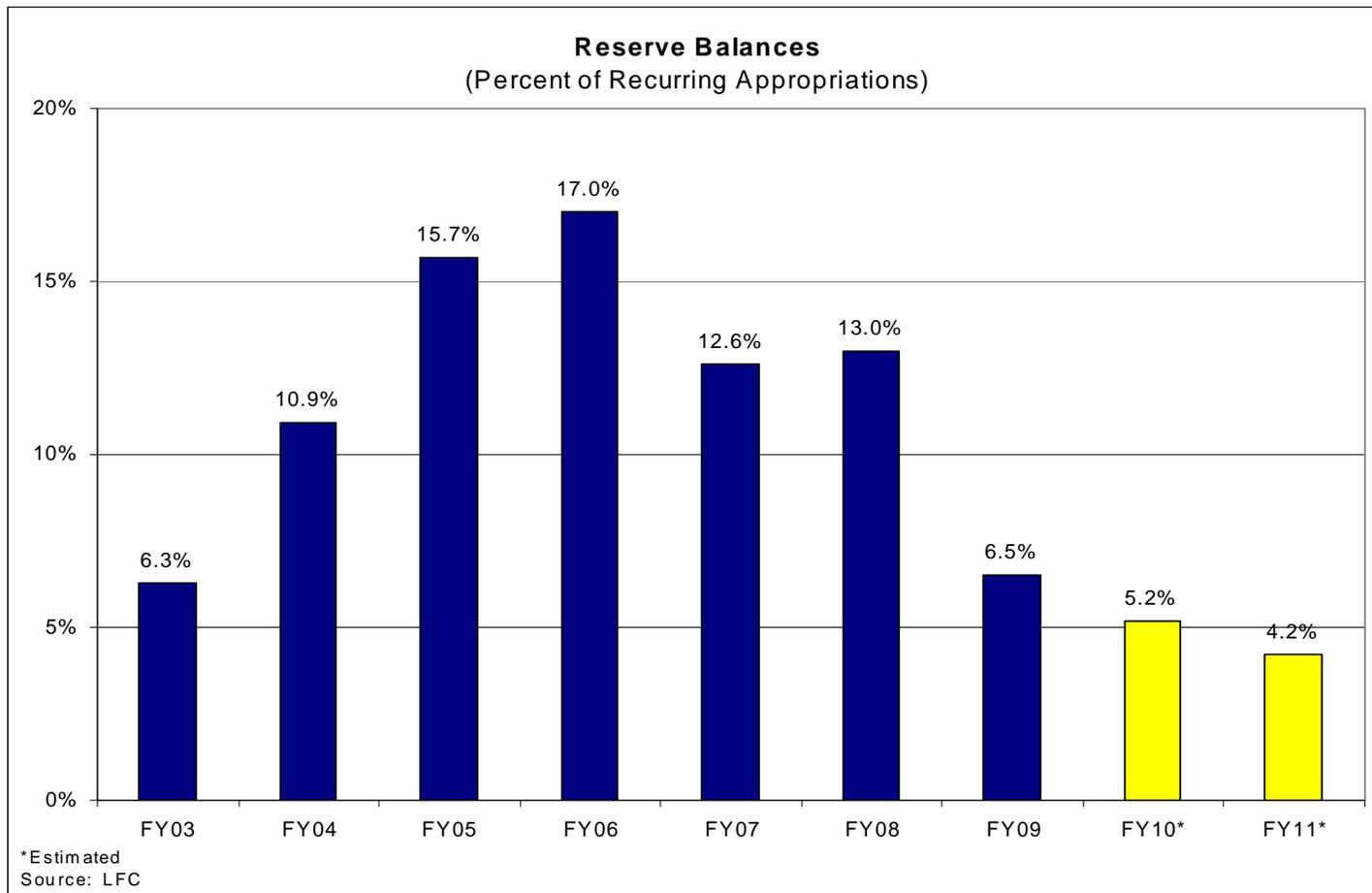
	Bill No.	General Fund (millions)	
		FY11	FY12
<b>Regular Session Bills:</b>			
Withholding from Pass-through entities	HB 120	\$15.6	\$9.8
Freeze Fire Protection Fund Distribution	HB 114	\$2.2	\$2.1
Solar construction GRT deduction	HB 261	-\$4.3	-\$4.3
Other bills		-\$0.6	-\$0.6
<b>Subtotal</b>		<b>\$12.9</b>	<b>\$7.0</b>
<b>Special Session Bills:</b>			
Cigarette tax increase--\$0.75 per pack	HB 3	\$35.9	\$35.8
Increase LICTR	SB 10, 12, 13	-\$5.3	-\$5.4
PIT addback of PIT only		\$66.0	\$47.0
Compensating tax fix		\$11.6	\$12.2
Increase GRT & Comp. Tax by 1/8%		\$59.9	\$63.3
Reduce food GRT hold harmless distributions		\$68.0	\$77.0
Tax Amnesty	SB 2	\$0.0	\$6.9
<b>Subtotal Special Session After Vetoes</b>		<b>\$173.4</b>	<b>\$165.2</b>
<b>Grand Total Recurring Revenue After Vetoes</b>		<b>\$186.3</b>	<b>\$172.2</b>

- *Legislature approved a diverse set of measures, base broadening + raising rates*
- *Governor vetoed Food GRT, LICTR & cigarette distributions*

**General Fund Financial Summary**  
**2010 Regular & Special Sessions -- Final After All Actions**

	Actual FY09	Estimated FY10	Estimated FY11
<b>Revenue:</b>			
Recurring Revenue:			
December 2009 consensus forecast	\$5,319.6	\$4,823.3	\$5,120.8
2010 legislative actions		\$8.0	\$186.2
<b>Total recurring revenue</b>	<b>\$5,319.6</b>	<b>\$4,831.3</b>	<b>\$5,307.1</b>
Nonrecurring revenue:			
December 2009 consensus forecast	\$425.5		
2009 Special Session solvency measures	\$225.0	\$423.9	
2010 legislative actions		\$141.1	\$2.1
<b>Total nonrecurring revenue</b>	<b>\$650.5</b>	<b>\$565.0</b>	<b>\$2.1</b>
<b>Total revenue</b>	<b>\$5,970.1</b>	<b>\$5,396.3</b>	<b>\$5,309.2</b>
<b>Appropriations:</b>			
Recurring Appropriations:			
General Appropriations	\$6,035.1	\$5,492.5	\$5,353.9
2009 solvency measures		-\$134.6	
<b>Total recurring appropriations</b>	<b>\$6,035.1</b>	<b>\$5,357.9</b>	<b>\$5,353.9</b>
Nonrecurring appropriations:			
2009 Fund Transfers	-\$81.5	\$5.7	
2009 Special Session solvency measures		\$100.0	
2010 legislative actions		-\$18.4	
<b>Total nonrecurring appropriations</b>	<b>-\$81.5</b>	<b>\$94.4</b>	
<b>Total appropriations</b>	<b>5953.6</b>	<b>\$ 5,452.3</b>	<b>\$ 5,353.9</b>
<b>Reserves:</b>			
Beginning balance	\$735.0	\$392.6	\$277.9
Net changes	-\$342.5	-\$114.7	-\$55.0
Ending balance	\$392.6	\$277.9	\$222.9
<b>Ending balance as percent of recurring appropriations</b>	<b>6.5%</b>	<b>5.2%</b>	<b>4.2%</b>

Solvency measures.



- *Reserves would have fallen well below zero but for \$1.1 billion in solvency measures, equal to 16% of peak GF revenue*
- *Revenue forecasts contained much more risk than anticipated*

## *FY12 Budget Challenge*

### Revenue:

- Consensus forecast assumes 6% revenue growth = \$5,426 million
- Added revenues from 2010 bills = \$172 million
- Total revenue = \$5,598 million

### Appropriations:

- Assume flat budget from FY11 = (\$5,354 million)
- Need to replace one-time funds in FY11 budget = (\$324 million)
- Need to replace other one-time savings = (\$156 million)
- Total spending needed for current services = (\$5,833 million)
- Shortfall of projected revenues including increase = (\$236 million)