

# *Post Session Fiscal Report*



**REVENUE STABILIZATION AND  
TAX POLICY COMMITTEE**

**JUNE 18, 2012**

**DAVID ABBEY, DIRECTOR**

**N.M. LEGISLATIVE FINANCE COMMITTEE**

# Overview

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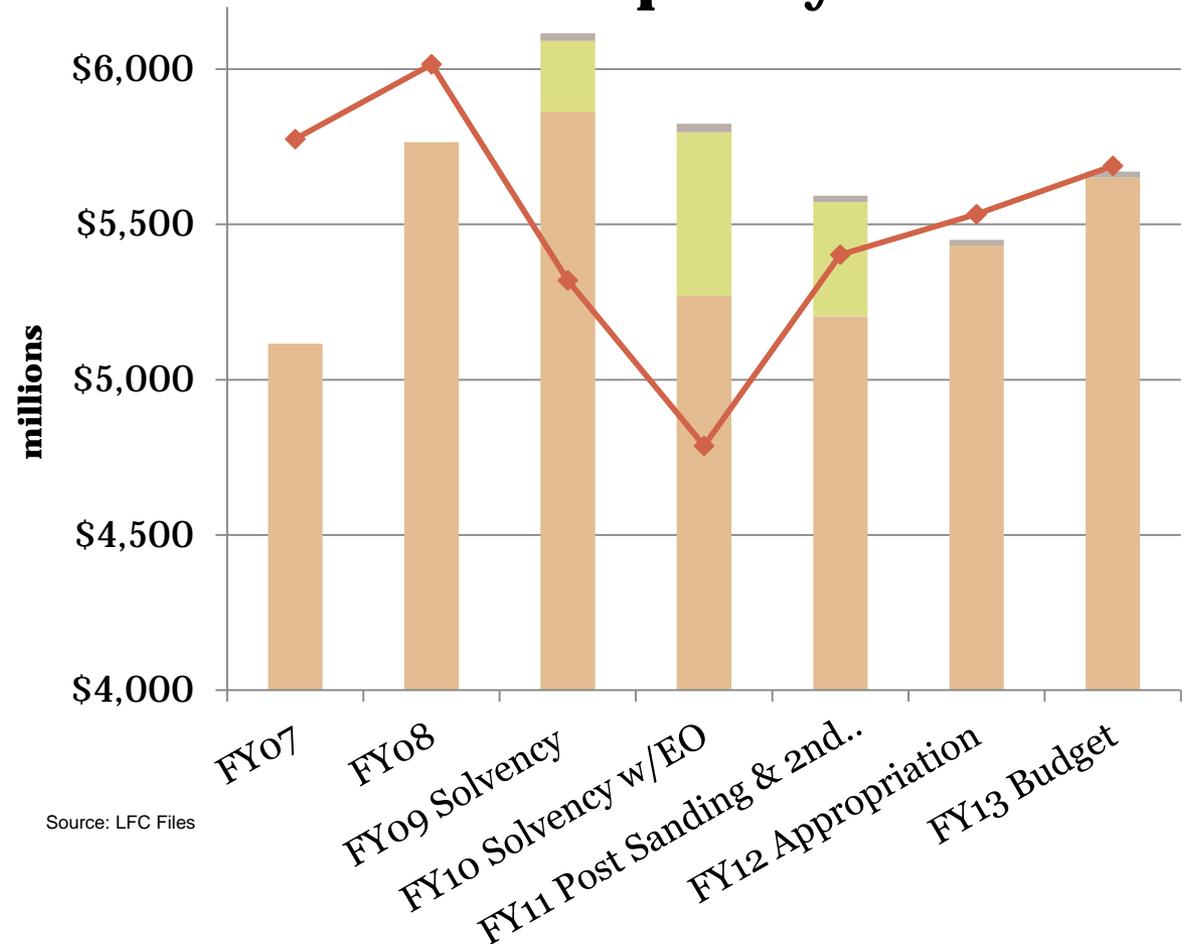
- **FY13 budget is balanced with reserves over 9 percent; capital investments authorized; reached agreement on size/scope of tax cuts.**
- **Significant challenges include**
  - NM economic growth prospects and jobs
  - Range of tax policy issues
  - Improving educational outcomes
  - Pension solvency
  - Medicaid expansion under Affordable Care Act
  - Capital outlay issues, including road funding and local infrastructure
  - Solvency and tax increases for unemployment compensation fund
  - Depletion of lottery fund

Recurring revenue fell by over 20%, \$1.2 billion, from FY08 to FY10.

FY12 spending was down 10.9% from the peak.

FY13 revenue still is projected to be 7% below the peak appropriation in FY09.

## Appropriations: General Fund and Temporary Funds



Source: LFC Files

General Fund
  Federal Funds
  Other Funds
  Revenue

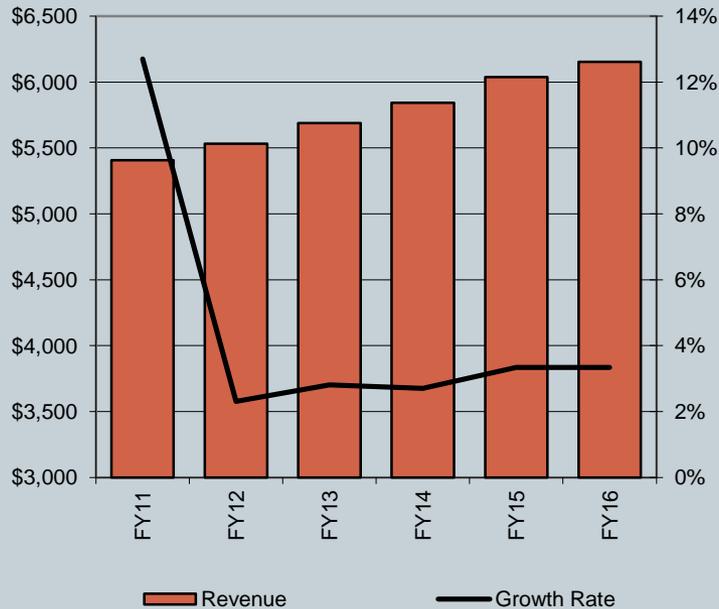
Source: LFC calculations.

# Revenue

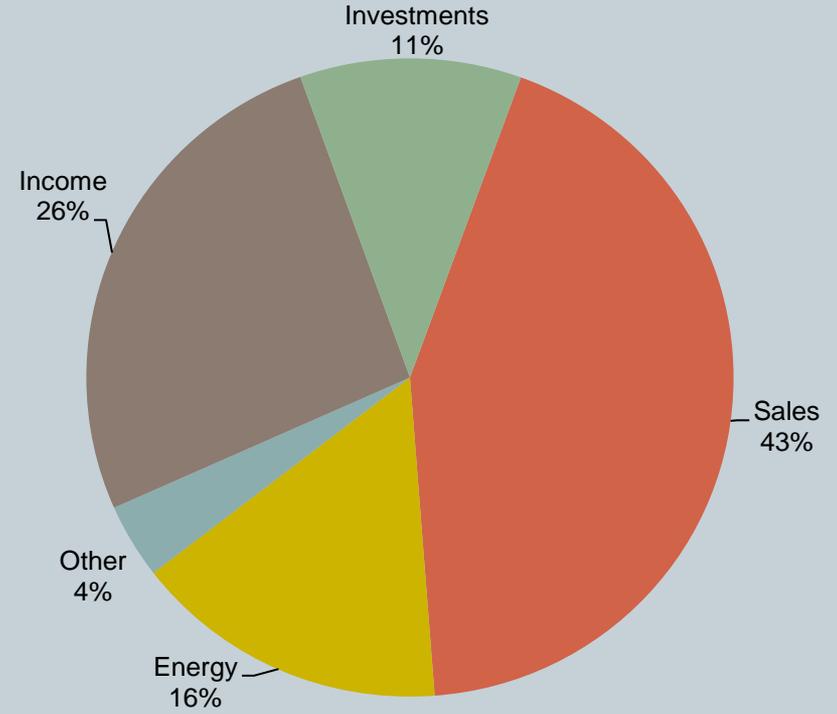
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## December 2011 Consensus Revenue Forecast

## Estimated FY13 General Fund Revenue – By Source



Source: LFC Files

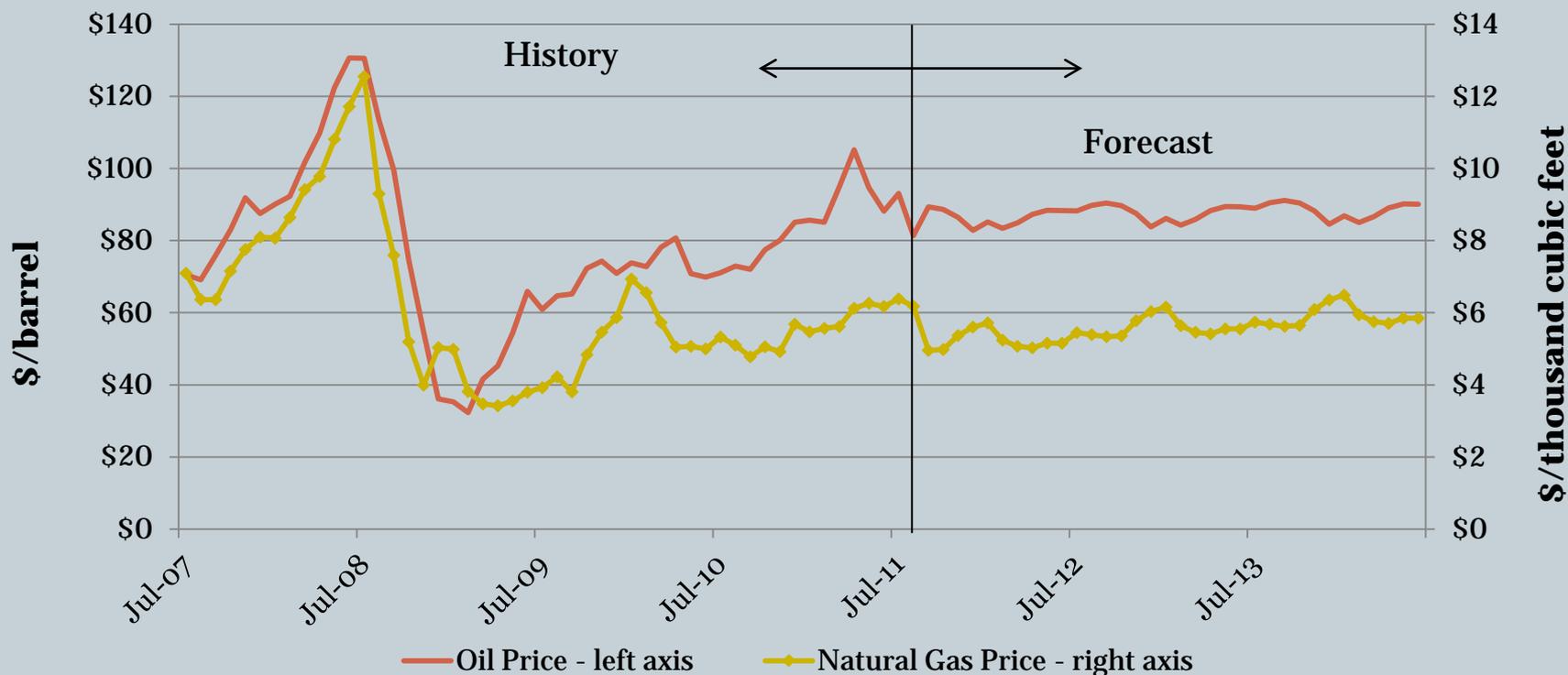


Source: Consensus Revenue Estimate

# Energy Forecast

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## New Mexico Oil & Natural Gas Prices



December 2011 Consensus forecast:

- Oil Price (bbl): \$87.75 FY13
- Gas price (mcf): \$5.60 FY13
- \$1/bbl: \$4 million for General Fund
- \$1/mcf: \$92 million for General Fund

# 2012 Budget Development

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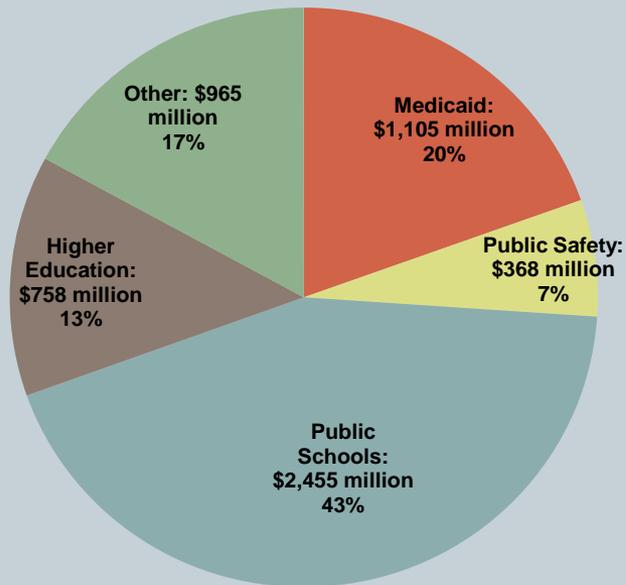
- “New Money” - FY13 revenue projected at over \$250 million, or 5%, higher than FY12 appropriation levels.
- Retirement swap expiration - \$49.7 million. Temporary solvency measure to lower state share of pension costs by swapping 1.75% contribution between employers and employees. Due to better state financial health, the swap expired.
- LFC sought to address out-year liabilities that will cost more GF, including additional pension swaps and replacing tobacco settlement \$
- Prioritized spending on education, Medicaid, and public safety.
  - Review of Agency Budget Requests and Performance: Focused on targeted investments in programs that will yield better results rather than funding old spending practices or simply try to get back to previous funding levels.
  - Recognized need for improvements in education, need to replace stop-gap spending in critical areas, and fund increased demand for services (Medicaid, judicial branch, child protective services, public safety).

# 2012 General Appropriation Act

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## FY13 General Fund Appropriations

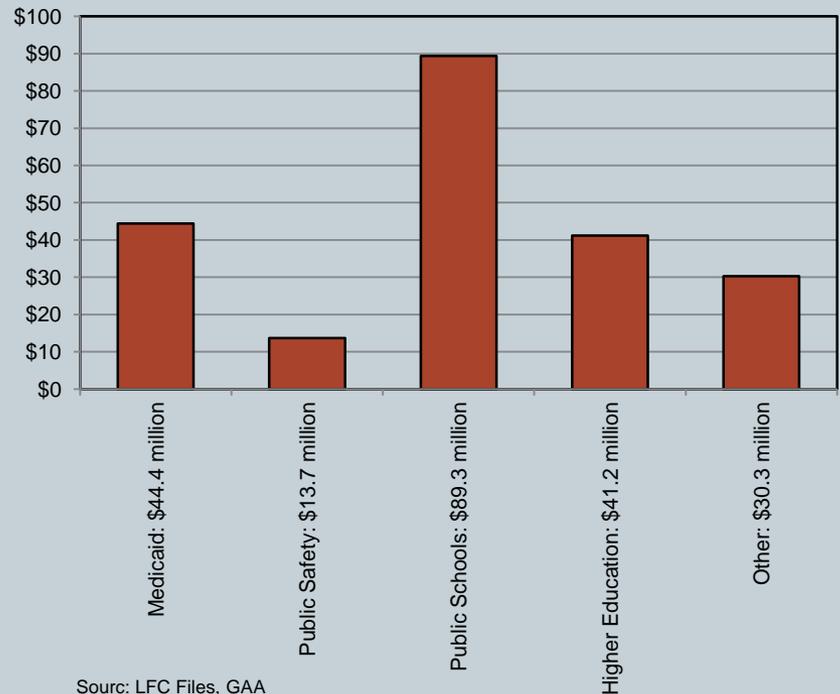
**\$5.65 billion**



Source: LFC Files, GAA

## General Fund Appropriation Changes

**\$219 million**



Source: LFC Files, GAA

# Early Childhood Learning Initiatives

- Secretary-Designate Skandera's focus on social promotion appropriately evolved into focus on early childhood education and improving early reading proficiency.
- Currently, New Mexico funds several programs aimed at early childhood education with a history of demonstrated success, including prekindergarten and kindergarten-three-plus.
- To address the persistent problems of sub-par reading and math proficiency in early grades, the budget includes a \$9.4 million increase to serve more students in PreK and the Kindergarten-Three-Plus extended school year programs.
- Four significant executive school reforms funded:
  - \$8.5 million for the early reading initiative,
  - \$3.5 million for interventions for low-performing schools,
  - \$2.5 million for short-cycle assessments, and
  - \$1 million to develop a new teacher evaluation system.

# Higher Education Funding Issues

- The GAA appropriates \$757.7 million for higher education, an increase of \$41.2 million, or 5.7 percent, above FY12 levels. Of the \$41.2 million, \$27.7 was directed for institutional programs and projects and \$13.5 million for the ERB restoration.
- New Mexico makes extraordinary financial commitments for higher education and has an accessible and affordable system. NM has very low certificate and degree completion.
- A new formula was developed last year with more emphasis on outcomes:
  - -Funds statewide outcomes, including increased certification and degree procurement, especially for priority workforce areas and by financially at-risk students
  - -Funds workload based on completed coursework, not enrollment or “empty seats” due to dropped courses
  - -Maintains budget stability near FY12 operating levels
- The revised formula moves the state in the right direction to fund outcomes and reward results.

# Tax Legislation

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- **LFC Tax Policy Principles:**
  - Adequacy
  - Efficiency
  - Equity
  - Simplicity
  - Accountability
- **A number of bills will impact revenues in the future. The impact of all measures will reduce general fund revenues by only \$9 million in FY13, but rising to \$50 million in FY17.**
- **House Bill 184 provides a five-year phase-in of deductions from the gross receipts tax for the value of inputs consumed in a manufacturing process (\$2.4 million in FY13, \$18.6 million in FY16). Also provides gross receipts deduction for construction-related services.**
- **High wage jobs tax credit filing has increased dramatically – 3 times greater than the FY11 levels. To-date, businesses have applied for \$45.8 million in credits.**
- **Significant tax policy issues**
  - Proliferation and growing cost of exemptions and credits
  - High gross receipts and corporate income tax rates and effect on manufacturing and export sectors.

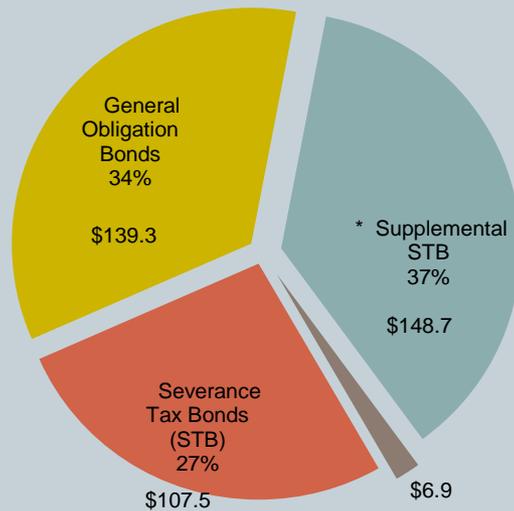
**General Fund Financial Summary - HB 2 Substitute: 2012 Session**  
(in millions of dollars)

	<u>Preliminary FY2011</u>	<u>Estimated FY2012</u>	<u>Estimated FY2013</u>
<b><u>APPROPRIATION ACCOUNT</u></b>			
<b>REVENUE</b>			
Recurring Revenue			
December 2011 Consensus Forecast	\$ 5,408.1	\$ 5,532.8	\$ 5,688.2
2012 Regular Session		\$ -	\$ (11.1)
Total Recurring Revenue	\$ 5,408.1	\$ 5,532.8	\$ 5,677.1
Nonrecurring Revenue			
December Consensus Forecast	\$ 62.5	\$ 18.3	\$ (3.3)
2012 Regular Session	\$ -	\$ (44.0)	\$ -
Total Non-Recuring Revenue (1)	\$ 62.5	\$ (25.7)	\$ (3.3)
<b>TOTAL REVENUE (2)</b>	<b>\$ 5,470.6</b>	<b>\$ 5,507.1</b>	<b>\$ 5,673.8</b>
<b>APPROPRIATIONS</b>			
Recurring Appropriations			
General Appropriation	\$ 5,212.9	\$ 5,431.3	\$ 5,649.6
Special/New Initiatives Appropriations		\$ 40.9	
2012 Regular Session - Legislation		\$ -	\$ -
Total Recurring Appropriations	\$ 5,212.9	\$ 5,472.2	\$ 5,649.6
Nonrecurring Appropriations			
2011 Regular & Special Sessions	\$ 18.3	\$ 5.8	
2012 Deficiencies, Supplementals, Specials and IT		\$ 59.9	\$ -
2012 Regular Session - Legislation		\$ -	\$ -
Total Nonrecurring Appropriations	\$ 18.3	\$ 65.7	\$ -
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 5,231.2</b>	<b>\$ 5,537.9</b>	<b>\$ 5,649.6</b>
Transfer to(from) Reserves (3)	\$ 239.4	\$ (30.8)	\$ 24.2
<b>GENERAL FUND RESERVES</b>			
Beginning Balances	\$ 278.0	\$ 503.3	\$ 489.0
Transfers from (to) Appropriations Account	\$ 239.4	\$ (30.8)	\$ 24.2
Revenue and Reversions	\$ 58.9	\$ 80.1	\$ 49.8
Appropriations, expenditures and transfers out	\$ (73.0)	\$ (63.6)	\$ (54.6)
<b>Ending Balances</b>	<b>\$ 503.3</b>	<b>\$ 489.0</b>	<b>\$ 508.4</b>
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>9.7%</i>	<i>8.9%</i>	<i>9.0%</i>

# Capital Outlay

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**Total capital outlay: \$402.4 million**



Source: LFC

\* For public school construction

- No formal executive request, though required by law
- Statewide v. Local
  - Gov. invited legislative input on local projects before session
  - Disproportionate vetos
- Need pre-session agreement on priorities, criteria and vetting of projects
- Road funding is inadequate

# Pension Fund Solvency

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## ERB

- Unfunded Accrued Actuarial Liabilities
  - ✦ \$5.9 billion
- Funded Ratio – 61.6%
- Funding Period – Infinite
- Annual Required Contribution - \$357 million
  - ✦ Actual: \$309 million (87.7%)

## PERA

- Unfunded Accrued Actuarial Liabilities
  - ✦ \$4.9 billion
- Funded Ratio – 70.5%
- Funding Period – Infinite
- Annual Required Contribution - \$328 million
  - ✦ Actual: \$296 million (88.7%)

# Pensions, cont.

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- **Solvency for both funds has deteriorated for many years**
- **Ways to improve solvency:**
  - Investment returns and increasing contributions are not sufficient
  - Reducing COLA would lower the compounding rate
  - Create incentives for employees to work longer or increase minimum age of retirement
  - Close loopholes (example, full-time service credit for part-time work)

# Revenue Update

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- **FY 12 Revenue Forecast**
  - Year-to-date strength in revenues 3% - 4 % higher than estimate.
- **Latest state economic forecast**
  - Shows New Mexico personal income growth higher than expected for FY14.
  - Does not fully reflect changes to energy prices.
  - Shows weak economic growth for U.S. economy.
  - Does not fully account for events in Europe.
- **Revenue Outlook:**
  - Higher base and weaker growth.
  - Systemic oil and gas estimating problems.
  - Cost of tax incentives underestimated.

# Unemployment Insurance Fund

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- Roughly 78 percent of ineffective charges against the UI trust fund in FY2010 were from employers in the top 5.4 percent bracket. (Ineffective charges include charges where benefits paid out on behalf of an employer exceed the contributions made by that particular employer.)
- Employers with the most claims have limited incentive to control unemployment costs and are being subsidized by employers at lower rates.
- The department also reported that under current law schedule 6 would likely be implemented in 2014.

# General Fund Outlook

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## FY14 - FY15 General Fund Recurring Appropriation Outlook

(Dollars in Millions)	OpBud FY12	GAA FY13	GAA FY14	GAA FY15
December 2011 Consensus - Recurring Revenue	\$5,532.8	\$5,688.2	\$5,841.8	\$6,036.8
2012 Legislation		(\$11.1)	(\$29.4)	(\$35.8)
<b>Total of Recurring Revenue</b>	<b>\$5,532.8</b>	<b>\$5,677.1</b>	<b>\$5,812.4</b>	<b>\$6,001.0</b>
<u>Recurring Appropriations:</u>				
Public Education <sup>1</sup>	\$2,366.0	\$2,455.3	\$2,529.0	\$2,604.9
Higher Education <sup>2</sup>	\$716.6	\$757.7	\$772.9	\$788.3
Public Safety <sup>2</sup>	\$354.1	\$367.8	\$375.2	\$382.7
Medicaid <sup>3</sup>	\$1,060.4	\$1,104.8	\$1,149.0	\$1,194.9
Other Health & Human Services <sup>2</sup>	\$195.6	\$237.3	\$242.0	\$246.9
All Other Government <sup>4</sup>	\$738.7	\$726.7	\$733.9	\$741.3
<b>Subtotal of Recurring Appropriations</b>	<b>\$5,431.3</b>	<b>\$5,649.6</b>	<b>\$5,802.0</b>	<b>\$5,959.0</b>
<u>Additional Funding:</u>				
Replace 50% tobacco settlement funds <sup>5</sup>			\$19.3	\$19.3
0.75% ERB Employer Increase <sup>6</sup>			\$18.1	\$36.1
Replace 1.5% Swap <sup>6</sup>			\$36.1	\$36.1
<b>Subtotal of Additional Funding</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$73.5</b>	<b>\$91.5</b>
<b>Total Recurring Approp. + Add. Funding</b>	<b>\$5,431.3</b>	<b>\$5,649.6</b>	<b>\$5,875.4</b>	<b>\$6,050.5</b>
<b>Surplus/(Deficit)</b>	<b>\$101.5</b>	<b>\$27.5</b>	<b>(\$63.0)</b>	<b>(\$49.4)</b>