

**April 1, 2010**

**MEMORANDUM**

**TO: Representative Luciano “Lucky” Varela, Chairman  
Senator John Arthur Smith, Vice Chairman**

**THROUGH: David Abbey, Director**

**FROM: Thomas Clifford, Chief Economist  
Becky Gutierrez, Senior Economist  
Daniel White, Financial Economist**

**SUBJECT: April 2010 General Fund Revenue Tracking**

**Summary:**

- Actual recurring revenue accruals are tracking about \$76 million below forecast.
- The gap between actual revenues and the December consensus forecast grew by about \$17 million over the last month.
- The main contributor to weakness is personal income tax. January payments were down by 42 percent compared with last year. Refund claims in the first two months of return processing are about the same as last year’s record levels.
- March payments with corporate income tax returns totaled about \$40 million. Although consistent with reduced expectations, this amount is down by one-third compared with last year’s returns.
- Taxable value for oil and gas products continues to exceed the average spot price reported by various industry surveys. However, prices for natural gas nationwide have fallen sharply since the latest consensus forecast was prepared in December. Although oil and gas revenues are providing a positive adjustment to the tracking this year, the current price outlook implies prices no higher – and perhaps somewhat lower – than the current forecast for FY11.

**Table 1: Revenue Tracking**

- Gross receipts taxes have been slightly below expectations but the weakness is small enough that it could be made up as the year progresses.
- Compensating tax collections are tracking well below the already reduced forecast level.
- Withholding payments have been generally consistent with the forecast of no growth for the year.
- Net corporate income tax revenue for January was \$18 million below expectations. The combination of film credit claims and refunds offset more than half of the gross revenue.
- Federal mineral leasing royalties in March were \$7 million higher than expected, a reflection of higher natural gas prices during December. Strength should continue for another two months but then disappear due to the recent decline of prices.
- Total recurring revenue is now tracking \$75.9 million lower than the December 2009 consensus forecast compared with \$59.4 million down in the February

tracking report. Personal and corporate income taxes are down a combined \$120 million while oil and gas revenues are up \$57.2 million.

**Table 2 and Figure 1: Year-to-date and Full-year Revenue Growth Rates**

- Year-to-date through January, total recurring revenue was down by 18 percent compared with the same period of FY09. This is a slight improvement from last month when year-to-date revenues were down 22 percent. A 9 percent decline is forecast for the full year.
- When oil and gas revenues are excluded, total revenue is down by 11 percent compared with a 5 percent decline forecast for the full year. This is improved from 14 percent last month.
- General sales taxes – gross receipts and compensating taxes – were down by 14 percent compared with a 7 percent full year forecast decline. These values are unchanged from last month.
- Personal income tax was down 15 percent compared with 3 percent growth forecast for the full year. This is down from 11 percent last month.
- Corporate income tax was down 81 percent compared with 17 percent decline for the full year. This is improved from a 90 percent decrease last month. These values were adjusted to reflect accounting changes introduced in the middle of FY09.
- Oil and gas revenues were down 47 percent compared with a 30 percent full year forecast decline. This value is unchanged from last month.

**Figure 2: Natural Gas Price Trends**

- Natural gas spot prices at the Henry Hub in Louisiana have fallen by roughly one-third in the last two months – from almost \$6.00 in January to less than \$4.00 in late March. Industry specialists cite concerns about sluggish economic growth, relatively high inventories and sharply increasing supplies from shale formations.
- For the sixth straight month December taxable gas value reported on New Mexico tax returns exceeded the spot prices reported by various industry surveys. Industry specialists have noted that declining supplies in the western producing basins have increased prices relative to eastern markets like the Henry Hub. However, their analysis does not explain as large a positive differential as seen in recent months.

**Table 3: U.S. and New Mexico Economic Indicators**

- The U.S. economic outlook is largely unchanged since the December forecast. GDP growth and inflation are expected to remain subdued until the second half of FY11.
- New Mexico’s near term economic outlook is weaker than forecast in December. Personal income growth is significantly weaker due to expectations of a delayed and less robust recovery.
- Crude oil prices have been slightly higher than forecast over the past several months. Natural gas prices were above expectations during the winter months but have fallen sharply in the last two months and are currently below forecast levels for FY11.

**Table 1**  
**FISCAL YEAR 2010 GENERAL FUND MONTHLY REVENUE TRACKING**  
(dollars in millions; blue font indicates actual revenue, italics indicate preliminary actual revenue)

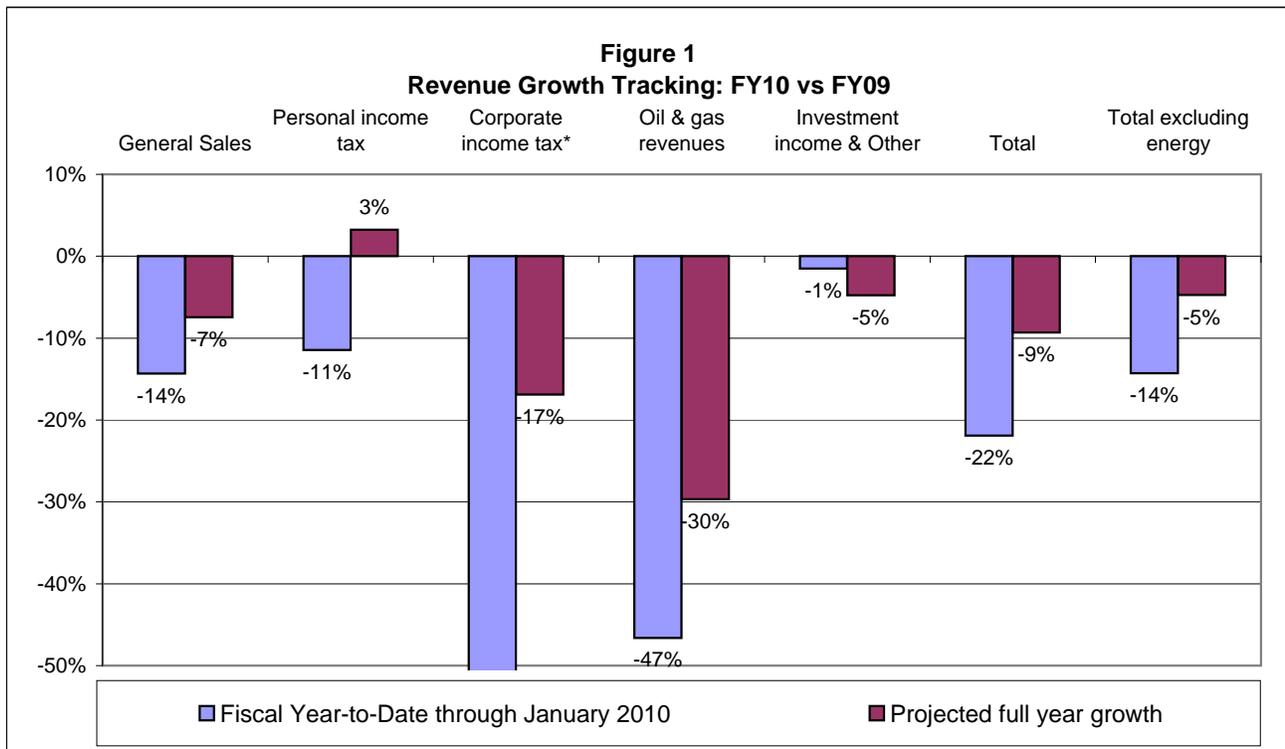
4/1/2010 10:06

Row #		ACTUAL REVENUE ACCRUALS							FORECAST REVENUE ACCRUALS					FY10 Actual + Forecast	% Chng FY09	TRACKING ERROR			FY09 Actual	Row #
		July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June			FY 10	YTD	YTD		
		Act.	Act.	Act.	Act.	Act.	Act.	Act.	Est.	Est.	Est.	Est.	Est.			Dec. 09	Est %	Error \$		
1	Gross Receipts Tax	127.6	140.6	132.7	133.6	137.7	156.4	133.3	131.3	144.5	141.2	148.9	164.0	1,691.9	-7.6%	1,702.0	-0.6%	(10.1)	1,831.9	1
2	Compensating Tax	4.0	3.9	4.6	4.0	4.4	5.0	2.8	4.1	5.8	4.7	4.7	5.6	53.4	-23.7%	58.0	-8.0%	(4.6)	69.9	2
3	<b>TOTAL GENERAL SALES TAXES</b>	<b>131.5</b>	<b>144.5</b>	<b>137.3</b>	<b>137.6</b>	<b>142.0</b>	<b>161.4</b>	<b>136.1</b>	<b>135.4</b>	<b>150.3</b>	<b>145.9</b>	<b>153.6</b>	<b>169.6</b>	<b>1,745.3</b>	<b>-8.2%</b>	<b>1,760.0</b>	<b>-0.8%</b>	<b>(14.7)</b>	<b>1,901.9</b>	<b>3</b>
4	Tobacco Products & Cigarette Taxes	3.2	3.5	4.6	4.1	3.3	3.1	4.1	4.2	3.6	4.3	4.6	4.4	47.0	-5.1%	47.2	-0.4%	(0.2)	49.6	4
5	Liquor Excise Tax	2.1	2.2	2.2	2.2	2.1	2.6	1.5	2.1	2.2	2.0	1.7	2.9	25.8	-0.2%	26.5	-2.5%	(0.7)	25.8	5
6	Insurance Premiums Tax	1.4	34.3	0.3	3.8	31.6	0.4	0.0	26.2	2.9	0.8	35.5	0.2	137.4	12.8%	133.9	2.6%	3.5	121.9	6
7	Fire Protection Fund Reversion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.7	21.7	-29.6%	21.7	0.0%	0.0	30.8	7
8	Motor Vehicle Excise Tax	8.2	8.1	9.2	7.3	5.9	6.4	6.9	6.9	8.1	7.3	7.7	8.1	90.0	-10.5%	92.5	-2.7%	(2.5)	100.5	8
9	Gaming Excise Tax	5.4	5.1	5.0	5.2	4.9	5.1	5.5	5.5	6.0	5.7	6.8	5.6	66.1	-4.5%	65.3	1.2%	0.8	69.2	9
10	Leased Vehicle Surcharge	1.0	0.5	0.7	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.6	5.7	15.9%	5.5	3.7%	0.2	4.9	10
11	Other	0.4	0.1	0.2	0.1	0.1	0.0	0.8	0.4	0.1	0.2	0.0	0.2	2.7	315.5%	1.9	44.9%	0.8	0.7	11
12	<b>TOTAL SELECTIVE SALES TAXES</b>	<b>21.8</b>	<b>53.8</b>	<b>22.2</b>	<b>23.1</b>	<b>48.3</b>	<b>18.0</b>	<b>19.1</b>	<b>45.7</b>	<b>23.4</b>	<b>20.7</b>	<b>25.6</b>	<b>43.8</b>	<b>396.8</b>	<b>-1.6%</b>	<b>394.5</b>	<b>0.6%</b>	<b>2.3</b>	<b>403.4</b>	<b>12</b>
13	Withholding	87.6	68.6	79.9	80.5	68.1	105.5	70.7	74.3	83.7	74.0	71.9	83.0	947.9	-0.9%	950.2	-0.2%	(2.3)	956.9	13
14	Final Settlements & Estimated Payments	24.3	12.0	36.1	13.5	8.2	13.0	43.7	1.8	20.3	73.8	35.9	58.2	340.8	-8.2%	385.0	-11.5%	(44.2)	371.1	14
15	Oil and Gas Withholding Tax	0.3	-0.1	1.1	6.4	0.0	0.4	5.7	0.5	4.3	3.5	0.8	7.5	30.5	17.7%	30.0	1.6%	0.5	25.9	15
16	Fiduciary Tax	0.0	0.3	-0.1	-3.0	-0.6	0.9	0.0	-0.1	1.0	1.7	1.1	0.1	1.4	-90.0%	5.0	-72.6%	(3.6)	13.7	16
17	<b>GROSS PERSONAL INCOME TAX</b>	<b>112.3</b>	<b>80.9</b>	<b>117.0</b>	<b>97.4</b>	<b>75.6</b>	<b>119.8</b>	<b>120.1</b>	<b>76.6</b>	<b>109.3</b>	<b>153.0</b>	<b>109.8</b>	<b>148.9</b>	<b>1,320.6</b>	<b>-3.4%</b>	<b>1,370.2</b>	<b>-3.6%</b>	<b>(49.6)</b>	<b>1,367.2</b>	<b>17</b>
18	Less: Refunds, distributions to other funds	8.4	7.7	12.7	23.6	8.1	102.2	79.2	68.2	52.8	26.8	15.6	9.4	414.5	1.4%	380.7	8.9%	33.8	408.7	18
19	<b>NET PERSONAL INCOME TAX</b>	<b>103.8</b>	<b>73.2</b>	<b>104.3</b>	<b>73.9</b>	<b>67.5</b>	<b>17.7</b>	<b>40.8</b>	<b>8.4</b>	<b>56.5</b>	<b>126.2</b>	<b>94.2</b>	<b>139.4</b>	<b>906.1</b>	<b>-5.5%</b>	<b>989.5</b>	<b>-8.4%</b>	<b>(83.4)</b>	<b>958.5</b>	<b>19</b>
20	<b>NET CORPORATE INCOME TAX</b>	<b>-2.7</b>	<b>1.0</b>	<b>-1.4</b>	<b>32.6</b>	<b>-9.0</b>	<b>-8.4</b>	<b>12.6</b>	<b>5.3</b>	<b>5.8</b>	<b>31.5</b>	<b>24.8</b>	<b>31.2</b>	<b>123.4</b>	<b>-24.0%</b>	<b>160.0</b>	<b>-22.9%</b>	<b>(36.6)</b>	<b>162.5</b>	<b>20</b>
22	Oil and Gas School Tax	22.6	25.0	21.3	26.4	28.3	29.7	26.2	24.1	24.2	24.0	24.3	24.1	300.2	-18.9%	290.8	3.2%	9.4	370.4	22
23	Oil Conservation Tax	1.1	1.3	1.1	1.3	1.4	1.5	1.4	1.3	1.3	1.3	1.3	1.3	15.6	-14.6%	15.3	2.1%	0.3	18.3	23
24	Resources Excise Tax	0.6	0.3	1.3	0.8	0.7	1.2	0.8	0.9	0.4	1.2	1.1	0.9	10.2	-8.8%	10.0	2.5%	0.2	11.2	24
25	Natural Gas Processors Tax	3.5	2.9	4.2	3.7	3.5	3.3	3.2	3.3	3.4	3.4	3.8	3.2	41.3	2.3%	41.0	0.7%	0.3	40.3	25
26	<b>TOTAL MINERAL PROD. TAXES</b>	<b>27.9</b>	<b>29.5</b>	<b>27.9</b>	<b>32.3</b>	<b>33.9</b>	<b>35.7</b>	<b>31.6</b>	<b>29.5</b>	<b>29.3</b>	<b>29.9</b>	<b>30.4</b>	<b>29.5</b>	<b>367.4</b>	<b>-16.5%</b>	<b>357.1</b>	<b>2.9%</b>	<b>10.3</b>	<b>440.2</b>	<b>26</b>
27	<b>LICENSE FEES</b>	<b>2.2</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>	<b>1.9</b>	<b>7.5</b>	<b>1.9</b>	<b>4.8</b>	<b>8.1</b>	<b>10.5</b>	<b>2.9</b>	<b>2.8</b>	<b>48.2</b>	<b>-3.8%</b>	<b>47.5</b>	<b>1.5%</b>	<b>0.7</b>	<b>50.1</b>	<b>27</b>
28	Land Grant Perm. Fund Distributions	36.4	36.4	36.4	36.4	36.4	36.4	36.4	36.4	36.4	36.4	36.4	36.3	436.7	0.7%	436.5	0.1%	0.2	433.5	28
29	State Treasurer's Earnings	3.5	1.8	1.6	1.0	1.4	5.4	0.1	3.2	2.5	0.3	3.4	-4.1	19.9	-70.6%	21.5	-7.5%	(1.6)	67.8	29
30	Severance Tax Perm. Fund Distributions	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	187.1	-2.2%	187.1	0.0%	(0.0)	191.3	30
31	<b>TOTAL INVESTMENT EARNINGS</b>	<b>55.5</b>	<b>53.8</b>	<b>53.6</b>	<b>53.0</b>	<b>53.4</b>	<b>57.4</b>	<b>52.1</b>	<b>55.2</b>	<b>54.5</b>	<b>52.2</b>	<b>55.3</b>	<b>47.7</b>	<b>643.7</b>	<b>-7.1%</b>	<b>645.1</b>	<b>-0.2%</b>	<b>(1.4)</b>	<b>692.5</b>	<b>31</b>
32	Federal Mineral Leasing Royalties	22.8	22.5	23.8	27.2	27.5	19.9	34.6	34.7	35.4	28.5	26.6	29.3	332.9	-34.4%	301.0	10.6%	31.9	507.2	32
33	State Land Office Bonuses, Rents	1.6	6.0	9.5	4.7	5.9	4.7	6.4	4.8	1.2	1.2	1.2	1.3	48.8	33.9%	33.8	44.4%	15.0	36.4	33
34	<b>TOTAL RENTS &amp; ROYALTIES</b>	<b>24.4</b>	<b>28.5</b>	<b>33.3</b>	<b>32.0</b>	<b>33.5</b>	<b>24.7</b>	<b>41.1</b>	<b>39.5</b>	<b>36.7</b>	<b>29.7</b>	<b>27.8</b>	<b>30.6</b>	<b>381.7</b>	<b>-29.8%</b>	<b>334.8</b>	<b>14.0%</b>	<b>46.9</b>	<b>543.7</b>	<b>34</b>
35	<b>TRIBAL REVENUE SHARING</b>	<b>0.1</b>	<b>0.0</b>	<b>16.2</b>	<b>0.1</b>	<b>0.0</b>	<b>15.2</b>	<b>0.2</b>	<b>0.0</b>	<b>14.2</b>	<b>0.7</b>	<b>6.2</b>	<b>10.0</b>	<b>62.8</b>	<b>-4.0%</b>	<b>63.1</b>	<b>-0.5%</b>	<b>(0.3)</b>	<b>65.4</b>	<b>35</b>
36	<b>MISCELLANEOUS RECEIPTS</b>	<b>1.4</b>	<b>1.1</b>	<b>1.4</b>	<b>2.0</b>	<b>1.4</b>	<b>1.5</b>	<b>3.1</b>	<b>1.5</b>	<b>3.4</b>	<b>5.9</b>	<b>2.5</b>	<b>17.1</b>	<b>42.4</b>	<b>-4.4%</b>	<b>41.8</b>	<b>1.4%</b>	<b>0.6</b>	<b>44.3</b>	<b>36</b>
37	<b>REVERSIONS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.0</b>	<b>3.7</b>	<b>1.7</b>	<b>0.7</b>	<b>1.5</b>	<b>2.6</b>	<b>2.3</b>	<b>1.6</b>	<b>14.7</b>	<b>29.8</b>	<b>-48.0%</b>	<b>30.0</b>	<b>-0.7%</b>	<b>(0.2)</b>	<b>57.3</b>	<b>37</b>
38	<b>TOTAL RECURRING REVENUE</b>	<b>365.9</b>	<b>387.4</b>	<b>396.7</b>	<b>389.3</b>	<b>376.8</b>	<b>332.4</b>	<b>339.3</b>	<b>326.8</b>	<b>384.6</b>	<b>455.5</b>	<b>456.2</b>	<b>536.4</b>	<b>4,747.4</b>	<b>-10.8%</b>	<b>4,823.3</b>	<b>-1.6%</b>	<b>(75.9)</b>	<b>5,319.8</b>	<b>38</b>
39	HB3 - Laws 2009 SS, Chapter 2	0.0	0.0	0.0	0.0	0.0	33.3	5.0	0.0	0.0	0.0	0.0	69.5	107.8	NA	107.8	NA	0.0	0.0	39
40	HB17 - Laws 2009 SS, Chapter 5	0.0	0.0	0.0	0.0	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	3.7	NA	3.7	NA	0.0	0.0	40
41	SB29 - Laws 2009 SS, Chapter 7	0.0	0.0	0.0	0.0	0.0	103.3	6.0	0.0	0.0	0.0	0.0	19.9	129.2	NA	129.2	NA	0.0	0.0	41
42	Non-Recurring	0.0	0.0	0.1	0.3	0.5	0.4	0.3	0.0	0.0	0.0	0.0	0.0	1.7	NA	0.0	NA	1.7	425.6	42
43	<b>TOTAL NON-RECURRING REVENUE</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.5</b>	<b>137.0</b>	<b>14.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>89.4</b>	<b>242.4</b>	<b>NA</b>	<b>240.7</b>	<b>NA</b>	<b>1.7</b>	<b>425.6</b>	<b>43</b>
44	<b>GRAND TOTAL REVENUE</b>	<b>365.9</b>	<b>387.4</b>	<b>396.8</b>	<b>389.6</b>	<b>377.3</b>	<b>469.4</b>	<b>354.2</b>	<b>326.8</b>	<b>384.6</b>	<b>455.5</b>	<b>456.2</b>	<b>625.9</b>	<b>4,989.7</b>	<b>-13.2%</b>	<b>5,064.0</b>	<b>-1.5%</b>	<b>(74.3)</b>	<b>5,745.4</b>	<b>44</b>

**Table 2**  
**General Fund Revenue Accruals Growth FY10 vs. FY09**  
**(dollar amounts in millions)**

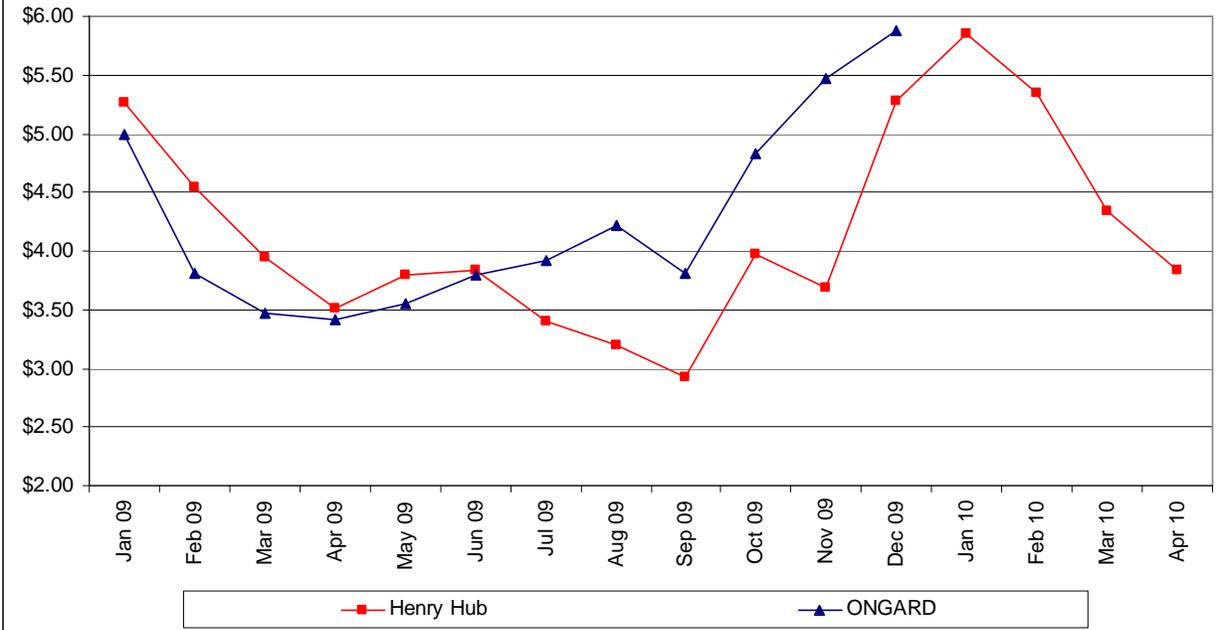
Revenue Category	Fiscal Year-to-Date through January 2010		Year-to-date growth	Projected full year growth: December 2009 Forecast
	FY09	FY10		
General sales taxes	\$1,152.1	\$990.5	-14%	-7%
Personal income tax	\$567.7	\$481.3	-15%	3%
Corporate income tax*	\$131.8	\$24.8	-81%	-17%
Oil & gas revenues	\$728.0	\$408.6	-44%	-30%
Investment income & other	\$680.2	\$578.3	-15%	-5%
<b>Total recurring revenue</b>	<b>\$3,259.8</b>	<b>\$2,673.2</b>	<b>-18%</b>	<b>-9%</b>
<b>Total excluding oil &amp; gas</b>	<b>\$2,531.8</b>	<b>\$2,264.6</b>	<b>-11%</b>	<b>-5%</b>

\*FY09 pattern of distributions adjusted to exclude accrual method changes during the year.



Reflects Actual accruals through January 2010.

**Figure 2**  
**Natural Gas Prices**



**Table 3**

**U.S. AND NEW MEXICO ECONOMIC INDICATORS**

	FY2009	FY2010		FY2011		FY2012		FY2013		FY2014	
	<u>Actuals</u>	<u>Dec 09 Estimate</u>	<u>Mar 10 Estimate</u>								
<b>NATIONAL ECONOMIC INDICATORS</b>											
US Real GDP Growth (level annual avg, % yoy)*	(2.2)	0.4	0.8	2.4	2.9	3.5	3.2	3.4	3.3	2.6	2.8
US Inflation Rate (CPI, annual avg, % yoy)**	1.4	0.9	1.0	1.5	1.4	2.1	2.1	1.9	2.2	1.8	2.1
Federal Funds Rate (%)	0.70	0.13	0.13	0.78	0.74	2.69	2.69	3.50	3.50	4.02	4.02
<b>NEW MEXICO LABOR MARKET AND INCOME DATA</b>											
<b>New Mexico</b>											
NM Non-Agricultural Employment Growth (%)	(1.9)	(3.5)	(3.1)	1.6	0.7	2.0	1.5	1.8	1.7	1.5	1.4
NM Personal Income Growth (%)***	5.0	(0.5)	(0.1)	3.2	1.6	4.5	3.6	4.4	4.3	4.3	4.5
NM Private Wages & Salaries Growth (%)	(0.1)	(3.1)	(3.3)	3.8	2.9	4.1	4.1	4.2	4.4	4.3	4.3
<b>CRUDE OIL AND NATURAL GAS OUTLOOK</b>											
NM Oil Price (\$/barrel)	\$ 64.71	\$ 70.00	\$ 72.00	\$ 75.00	\$ 78.00	\$ 79.00	\$ 79.00	\$ 83.00	\$ 81.00	\$ 87.00	\$ 83.00
NM Taxable Oil Sales (million barrels)	62.3	61.3	61.2	60.2	60.0	59.1	58.8	58.0	57.6	57.0	56.5
NM Gas Price (\$ per thousand cubic feet)****	\$ 5.65	\$ 4.30	\$ 4.90	\$ 5.40	\$ 5.15	\$ 5.65	\$ 5.10	\$ 5.90	\$ 5.55	\$ 6.10	\$ 5.75
NM Taxable Gas Sales (billion cubic feet)	1,390.0	1,325.0	1,306.6	1,270.0	1,241.3	1,220.0	1,191.6	1,190.0	1,144.0	1,160.0	1,098.2

\*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.

\*\*\*\*The gas prices are estimated using a formula of NYMEX, PIRA and Global Insight future prices plus a 50 cent premium for ONGARD relative to Henry Hub.

Sources: March Global Insight, March FOR-UNM, and March PIRA