



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

Post-Session Fiscal Review

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Presented to the
Revenue Stabilization and Tax Policy (RSTP) Committee
June 19, 2017

Post-Session Summary

Regular Session

- FY17 Solvency Measures
 - Chapter 1 (HB4): Nonrecurring reversions = \$78.3 million
 - Chapter 2 (SB113): Reduced FY17 appropriations, transferred cash balances, provided authority to reduce operating budgets, transferred remaining Tobacco Settlement Permanent Fund (TSPF) cash balances to operating reserve = \$55.2 million
 - Chapter 3 (SB 114): Reduced public school cash balances = \$46.1 million
- FY18 General Fund Appropriations (HB2)
 - Prior to vetoes, appropriations were \$6.093 billion, up \$22.6 million, or 0.3 percent, from FY17
 - Appropriations passed by the Legislature exceeded forecasted recurring revenue by \$164 million, but assumed HB202 would balance the budget and provide FY18 reserves of \$211 million, or 3.5 percent
 - Vetoes of HB202 and vetoes of Higher Education and the Legislature left appropriations at \$5.328 billion (down 12.2 percent) and reserves at \$694 million (13 percent of recurring appropriations)

Special Session

- FY18 Supplemental GAA & Solvency Legislation
 - With budgets for Higher Education and the Legislature restored (Chapter 2-SS, House Bill 1), total FY18 appropriations were \$6.082 billion, down \$5.8 million, or less than 1 percent, from FY17
 - Chapter 1-SS (Senate Bill 1) raised \$82.1 million in FY17 and \$8 million in FY18, post-veto
- Reserve Balances: FY17 = \$166.4 million (2.7 percent); FY18 = \$23 million (0.4 percent)



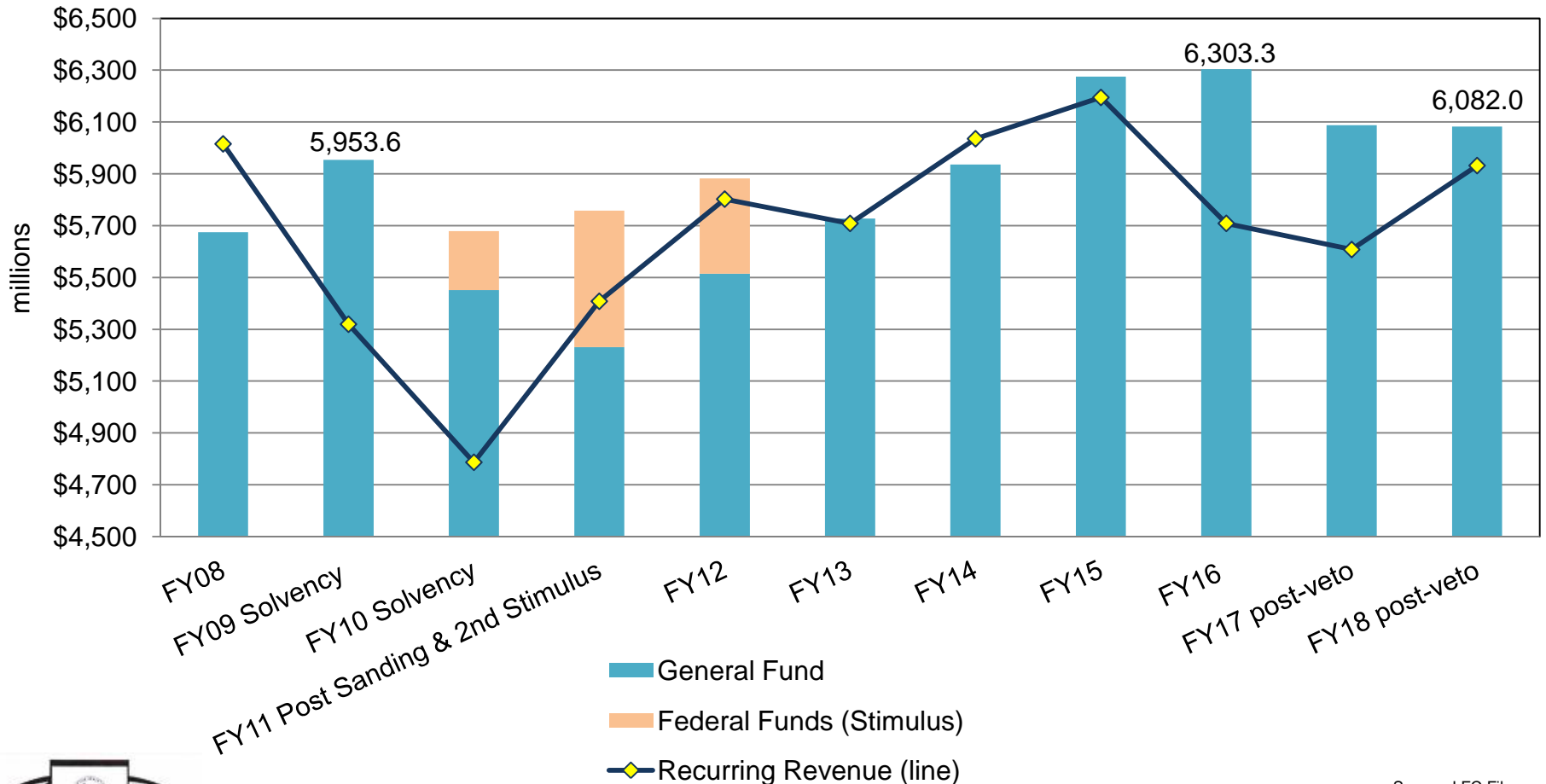
FY18 General Appropriation Act & Other Legislation

- Legislature approved 2.5 percent increases for the **judiciary**, district attorneys, and the public defender.
- General fund appropriation for the **Medicaid** program totaled \$915.1 million, or 0.2 percent, above FY17, including \$14.2 million for Medicaid administration, down 5 percent from FY17.
- Recurring **public education** appropriations totaled \$2.69 billion, an increase of \$11.1 million, or 0.4 percent.
- Reduced general fund appropriations across all categories for **higher education** institutions by 1 percent, except for funding for Project Echo at UNM-HSC.
- Funding directed toward overall **public safety** increased by \$1.8 million, or 0.4 percent.



Lost decade: FY18 appropriations virtually same as FY17, \$221 million below FY16, barely higher than FY09

Appropriations: General Fund and Temporary Funds



Source: LFC Files

Vetoed Revenue Packages

Regular Session

Bill	Description	FY18 Revenue
House Bill 202	Internet sales; health care; leg. retirement; weight-distance tax permit fee; CIT delay; fuel taxes; motor vehicle excise tax	~ \$315 million

Special Session

Bill	Description	FY18 Revenue
House Bill 2	Internet sales; hospitals; leg. retirement; rainy day fund	~ \$144 million
Senate Bill 2	Fuel taxes; motor vehicle excise tax; CIT delay; weight-distance tax permit fee	~ \$73 million



General Fund Financial Summary:
2017 Regular & Special Session Revenue Bills, Feed Bill, General Appropriation Act, and Vetoes
(millions of dollars)

June 16, 2017

	Audited FY2016	Estimate FY2017	Estimate FY2018
<u>APPROPRIATION ACCOUNT</u>			
REVENUE			
Recurring Revenue			
Total Recurring Revenue	\$ 5,708.8	\$ 5,607.8	\$ 5,931.8
Total Nonrecurring Revenue	\$ 0.1	\$ 513.2	\$ 18.7
TOTAL REVENUE	\$ 5,708.9	\$ 6,120.9	\$ 5,950.5
APPROPRIATIONS			
Total Recurring Appropriations	\$ 6,210.5	\$ 6,087.8	\$ 6,082.2
Total Nonrecurring Appropriations	\$ 92.8	\$ 25.9	\$ 1.1
TOTAL APPROPRIATIONS	\$ 6,303.3	\$ 6,113.7	\$ 6,083.3
Recurring Budget Gap	\$ (501.7)	\$ (480.1)	\$ (150.4)
GENERAL FUND RESERVES			
Beginning Balances	\$ 713.1	\$ 146.1	\$ 166.4
Transfers from (to) Appropriations Account	\$ (485.4)	\$ 7.2	\$ (3.7)
Revenue and Reversions	\$ 105.9	\$ 68.3	\$ 46.4
Appropriations, Expenditures and Transfers Out	\$ (187.4)	\$ (55.3)	\$ (186.1)
Ending Balances	\$ 146.1	\$ 166.4	\$ 22.9
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>2.4%</i>	<i>2.7%</i>	<i>0.4%</i>

Recurring spending exceeds recurring revenues

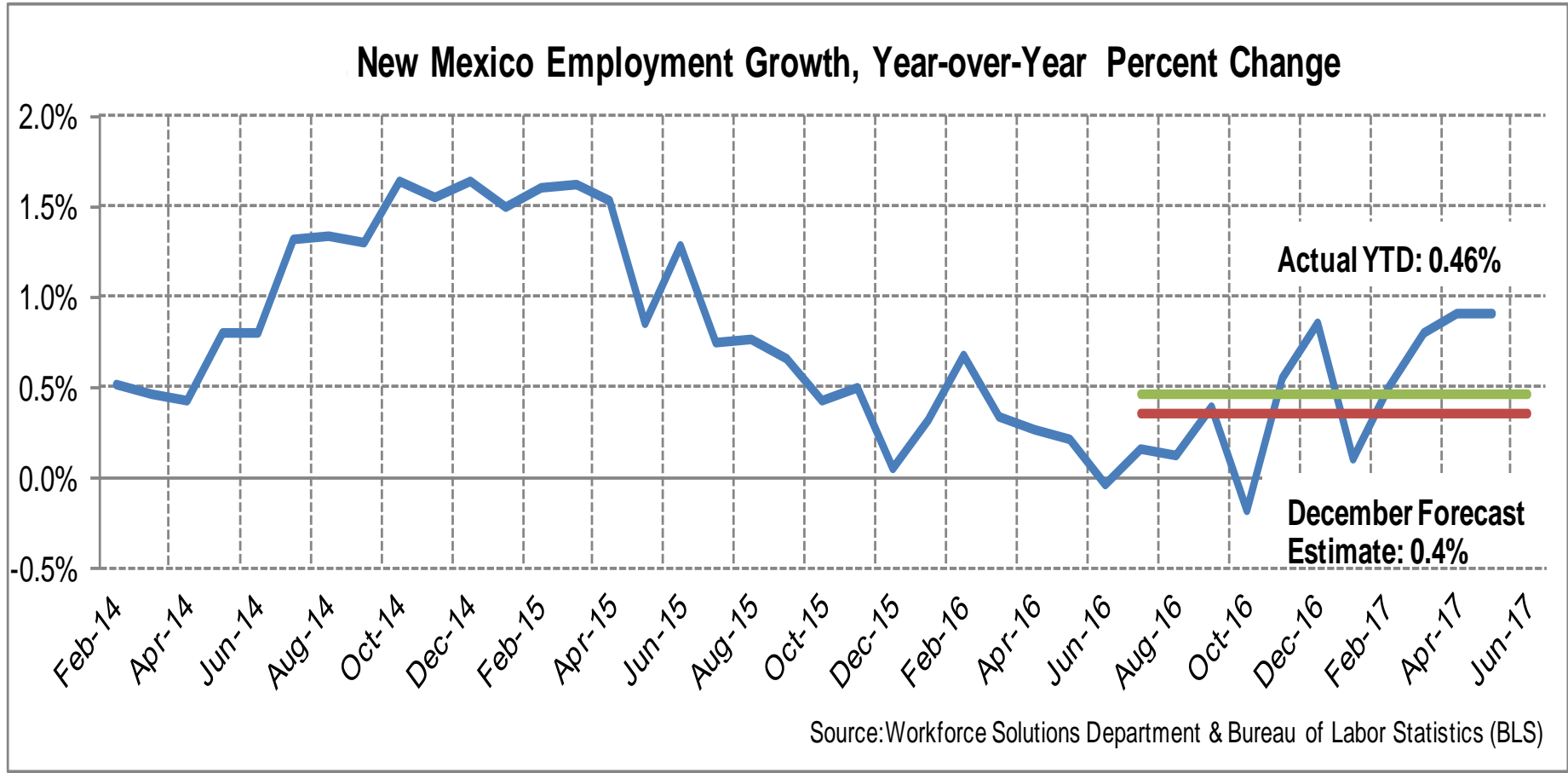
With solvency legislation, and budgets for Higher Education and the Legislature restored, FY18 reserve balance is projected at about \$23 million (0.4%), based on December 2016 CREG revenue forecast



YEAR-TO-DATE REVENUES

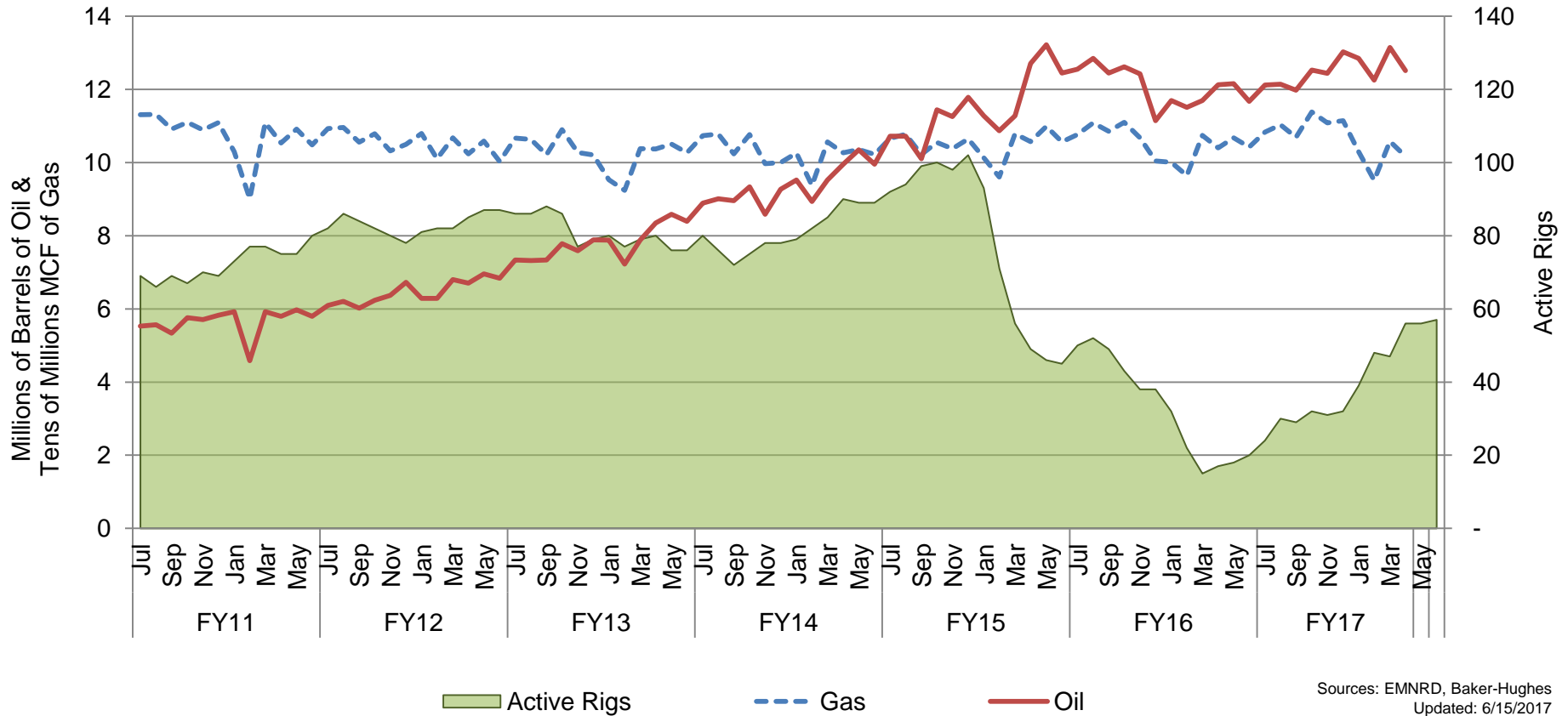


New Mexico employment growth is tracking on par with the December 2016 CREG estimate



Active rig counts are on the rise; modest strength in oil production (forecast was a slight decline)

**Monthly Oil & Gas Production and Average Active Rig Count
July 2011 to Present, by Fiscal Year**

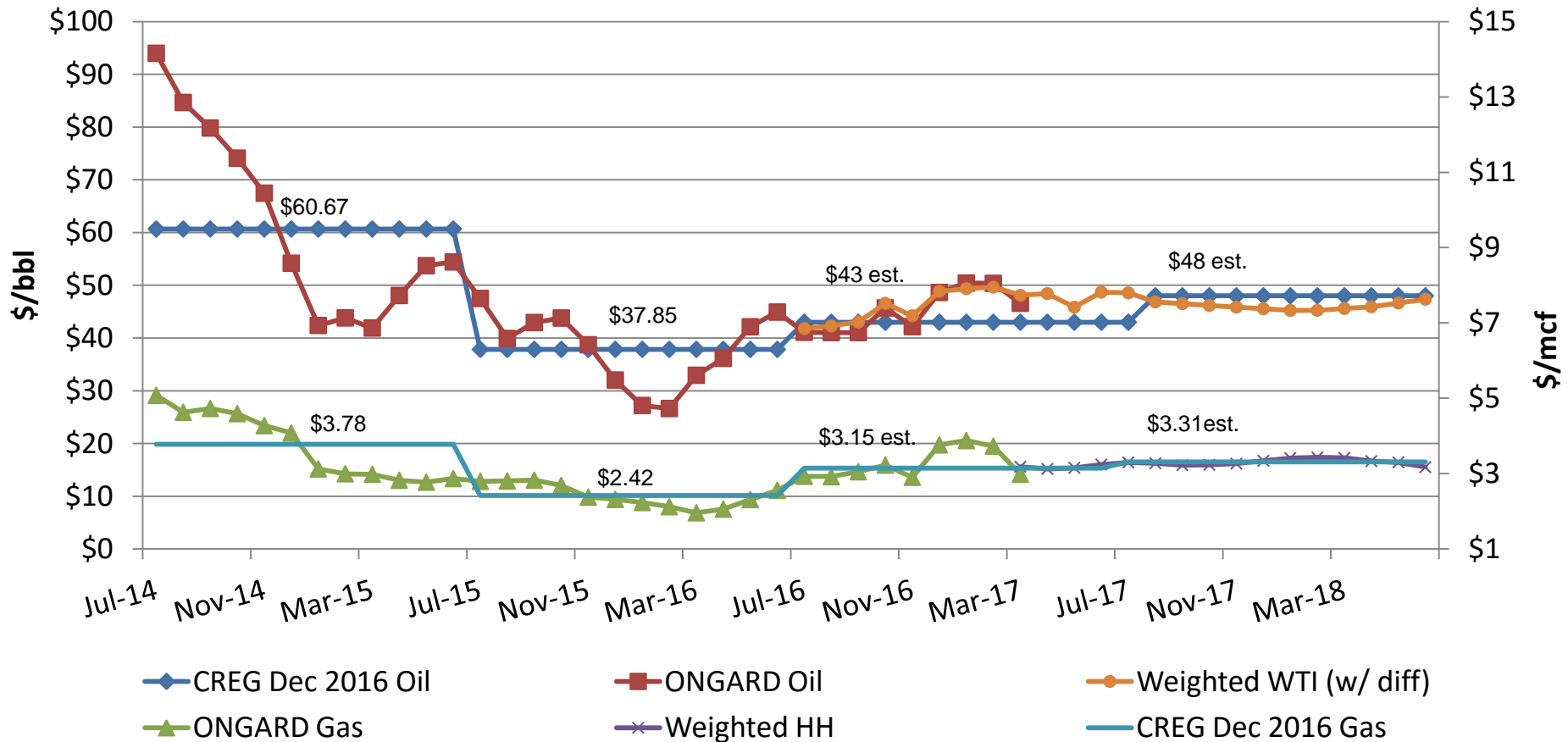


Sources: EMNRD, Baker-Hughes
Updated: 6/15/2017



Oil and natural gas prices are on par with the December 2016 CREG forecast for FY17; oil price futures are now below forecast for FY18

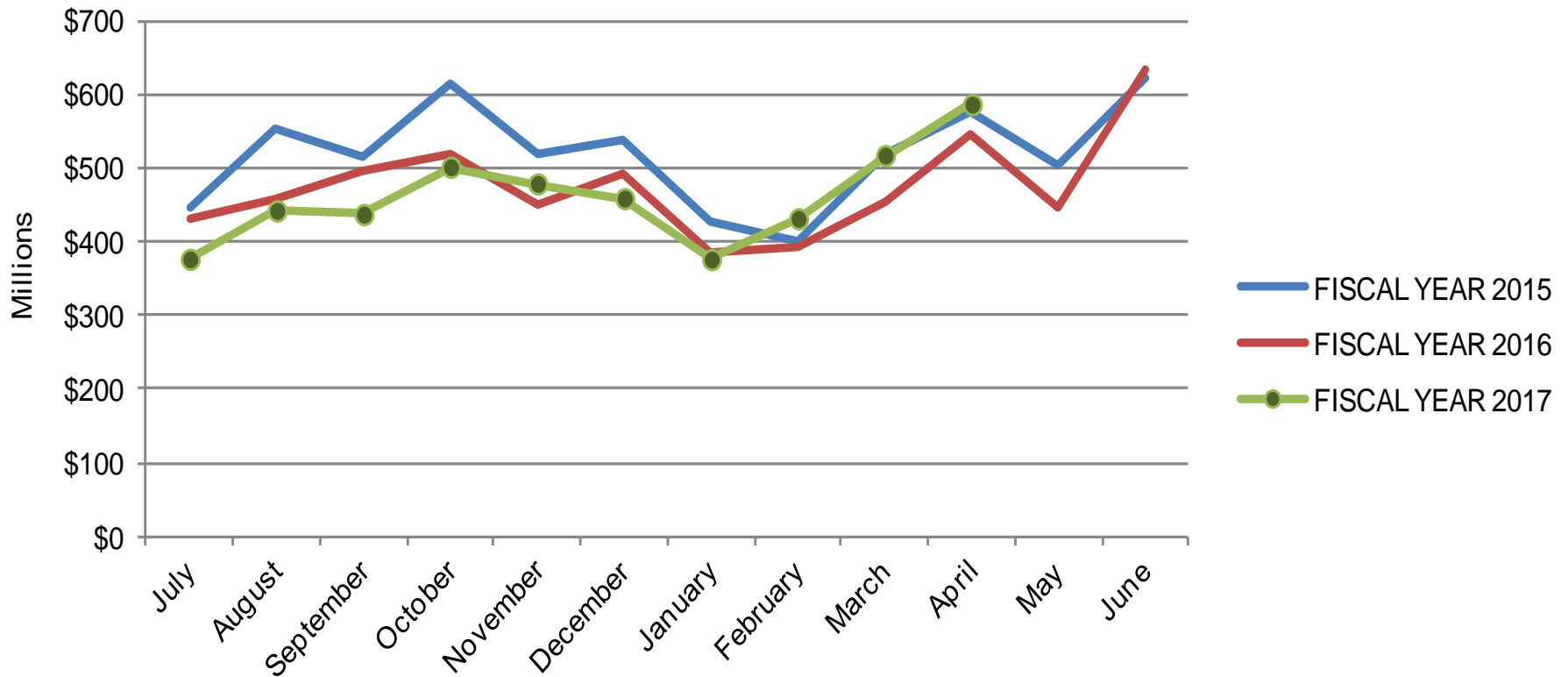
Current Oil and Natural Gas Prices



Weighted WTI averaged EIA, GI, NYMEX, with -\$3.35/bbl differential. Weighted HH averaged EIA, GI, NYMEX w/ +\$0.20/mcf differential.

February, March, and April revenues were stronger than FY16

Recurring General Fund Revenue, July - June



Through March, general fund revenues tracking \$134 million above CREG forecast

FISCAL YEAR 2017 GENERAL FUND MONTHLY REVENUE TRACKING
(dollars in millions; italics indicate preliminary actual revenue; bold indicates actual revenue)

Row #	ESTIMATED REVENUE ACCRUALS												FY17	TRACKING CHANGE (Δ)		
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Actual +	FY17 Dec.	YTD	YTD
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Est.	Est.	Estimate	Forecast +	% Δ	\$ Δ	
Govt Receipts Tax	148.4	168.8	130.8	102.1	166.4	101.2	161.1	166.1	101.6	100.1	150.1	146.6	1,007.4	1,869.6	6.0%	134.3

FISCAL YEAR 2017 GENERAL FUND MONTHLY REVENUE TRACKING

(dollars in millions; italics indicate preliminary actual revenue; bold indicates actual revenue)

Row #		FY17	TRACKING CHANGE (Δ)		
		Actual +	FY17 Dec.	YTD	YTD
		Estimate	Forecast +	% Δ	\$ Δ
			Solvency		
42	TOTAL RECURRING REVENUE	5,742.1	5,607.8	2.4%	134.3
43	Non-Recurring	85.9			
44	Additional Transfers	345.0			
45	TOTAL NON-RECURRING REVENUE	430.9	430.9		-
46	GRAND TOTAL REVENUE	6,173.0	6,038.7	2.2%	134.3

34	Securitize Tax Pym. Fund Distributions	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	200.4	200.4	0.0%	0.0	
35	TOTAL INVESTMENT EARNINGS	61.6	59.8	62.9	60.7	57.1	62.0	62.7	62.6	61.9	63.1	62.7	739.9	740.9	-0.1%	(1.0)	
36	Federal Minerals Leasing Royalties	19.6	22.3	33.1	53.1	26.5	30.2	26.2	30.2	34.0	30.6	96.8	28.0	430.6	420.0	2.5%	10.6
37	State Land Office Bonuses, Pymts	0.1	3.2	2.0	13.3	9.5	3.0	5.7	1.5	20.6	3.6	5.9	5.8	74.3	55.0	35.1%	19.3
38	TOTAL RENTS & ROYALTIES	19.7	25.5	35.1	66.4	36.0	33.2	31.9	31.7	54.6	34.2	102.7	33.8	504.9	475.0	6.3%	29.9
39	TRIBAL REVENUE SHARING	0.7	-	12.2	0.8	0.0	14.5	0.9	0.0	15.2	0.1	0.5	16.4	61.3	64.2	-4.5%	(2.9)
40	MISCELLANEOUS RECEIPTS	1.1	0.9	1.1	0.9	7.9	8.3	1.0	1.4	1.1	1.2	1.0	18.0	43.9	61.5	-28.7%	(17.6)
41	REVERSIONS	-	0.0	0.0	0.2	2.8	4.1	(0.0)	0.6	2.9	0.0	2.2	28.3	41.2	45.1	-8.6%	(3.9)
42	TOTAL RECURRING REVENUE	376.3	442.1	437.1	501.5	478.8	488.8	376.0	431.4	517.3	586.6	556.5	579.5	5,742.1	5,607.8	2.4%	134.3
43	Non-Recurring	8.0	0.2	(0.1)	0.0	0.4	(0.2)	28.0	30.7	11.0	8.0	-	85.9	-	-	-	-
44	Additional Transfers	49.0	3.0	5.3	8.6	14.5	17.1	42.6	40.8	3.8	0.6	-	159.6	345.0	-	-	-
45	TOTAL NON-RECURRING REVENUE	57.0	3.2	5.3	8.6	14.9	16.9	70.6	71.5	14.7	8.6	-	159.6	430.9	430.9		-
46	GRAND TOTAL REVENUE	433.3	445.4	442.4	510.1	493.7	475.7	446.6	503.0	532.1	595.2	565.6	739.2	6,173.0	6,038.7	2.2%	134.3

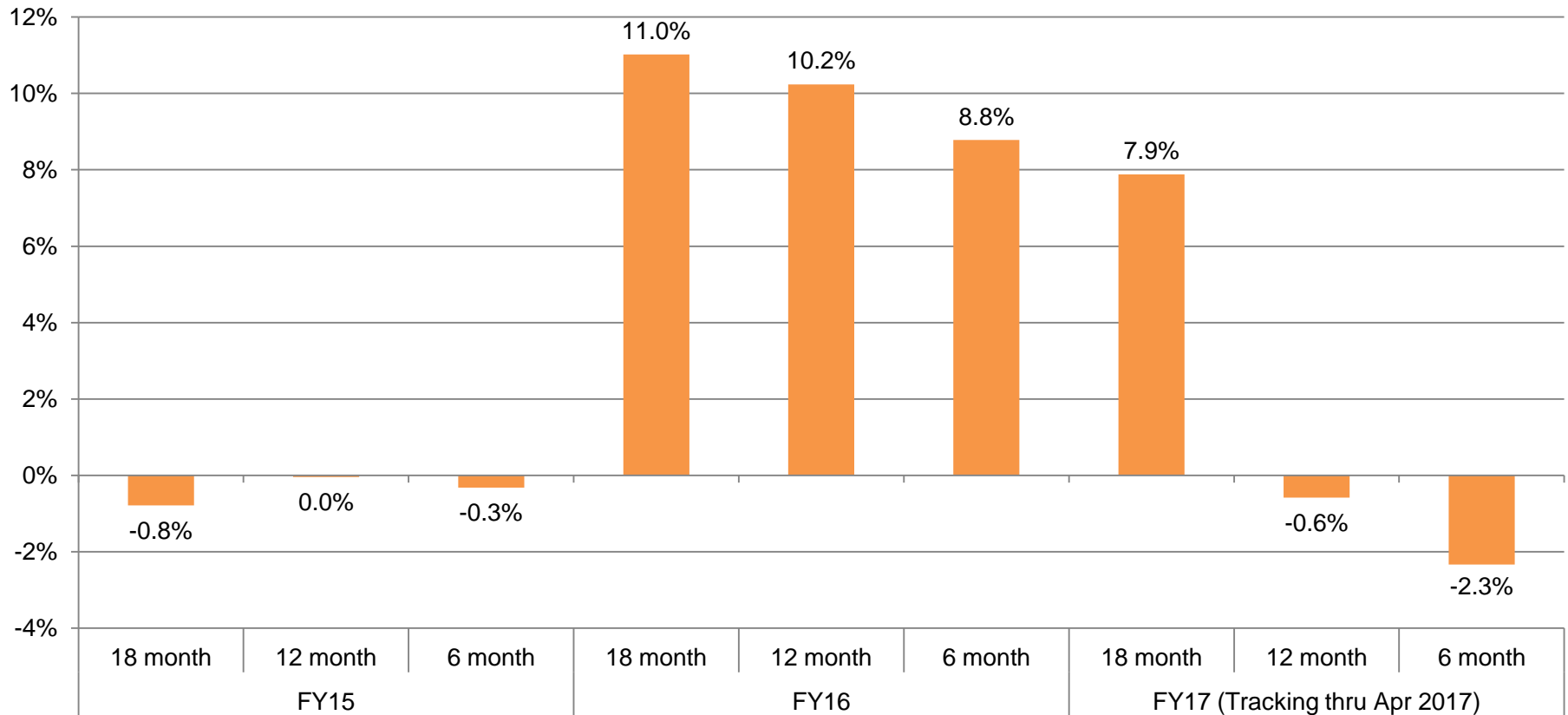
the consensus revenue estimate and historical monthly patterns; the non-recurring additional transfers amount for June includes amounts expected due to solvency legislation

Source: LFC Files; General Fund Revenue Tracking Report (Accruals through April 2017)



Closing the gap in revenue estimating error; now tracking within about 2 percent of December 2016 forecast

**Consensus Revenue Estimate
Recurring Revenue Estimating Difference/Error**



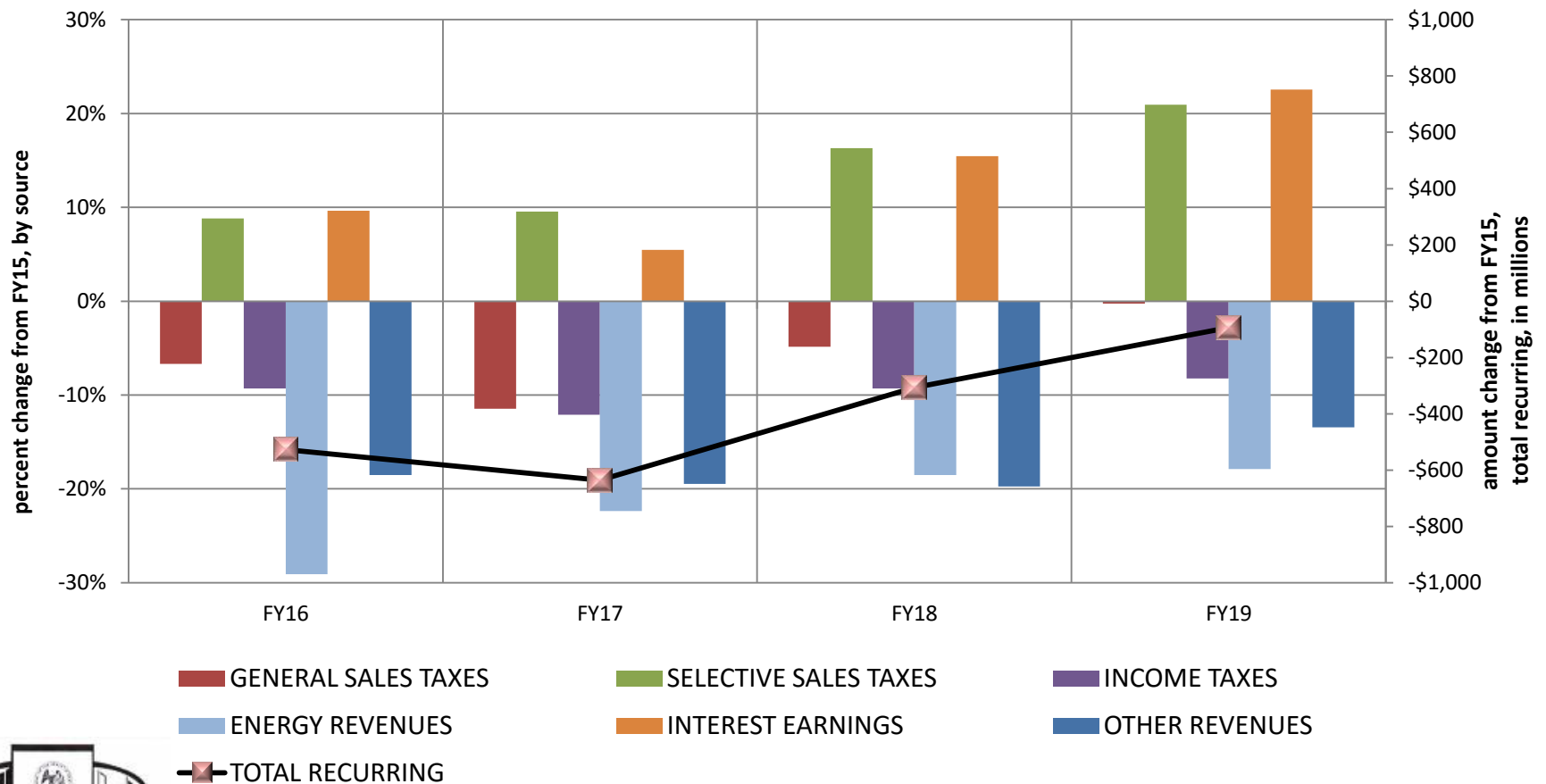
Source: LFC General Fund Tracking Report

FY19 FISCAL OUTLOOK & STATE GOVERNMENT CONDITION



FY19 total recurring revenue almost back to FY15 levels

Revenue Growth by Source (change from FY15)



Source: December 2016 Consensus Revenue Estimate

Appropriations growing faster than revenues; recurring revenue gap of over \$150 million

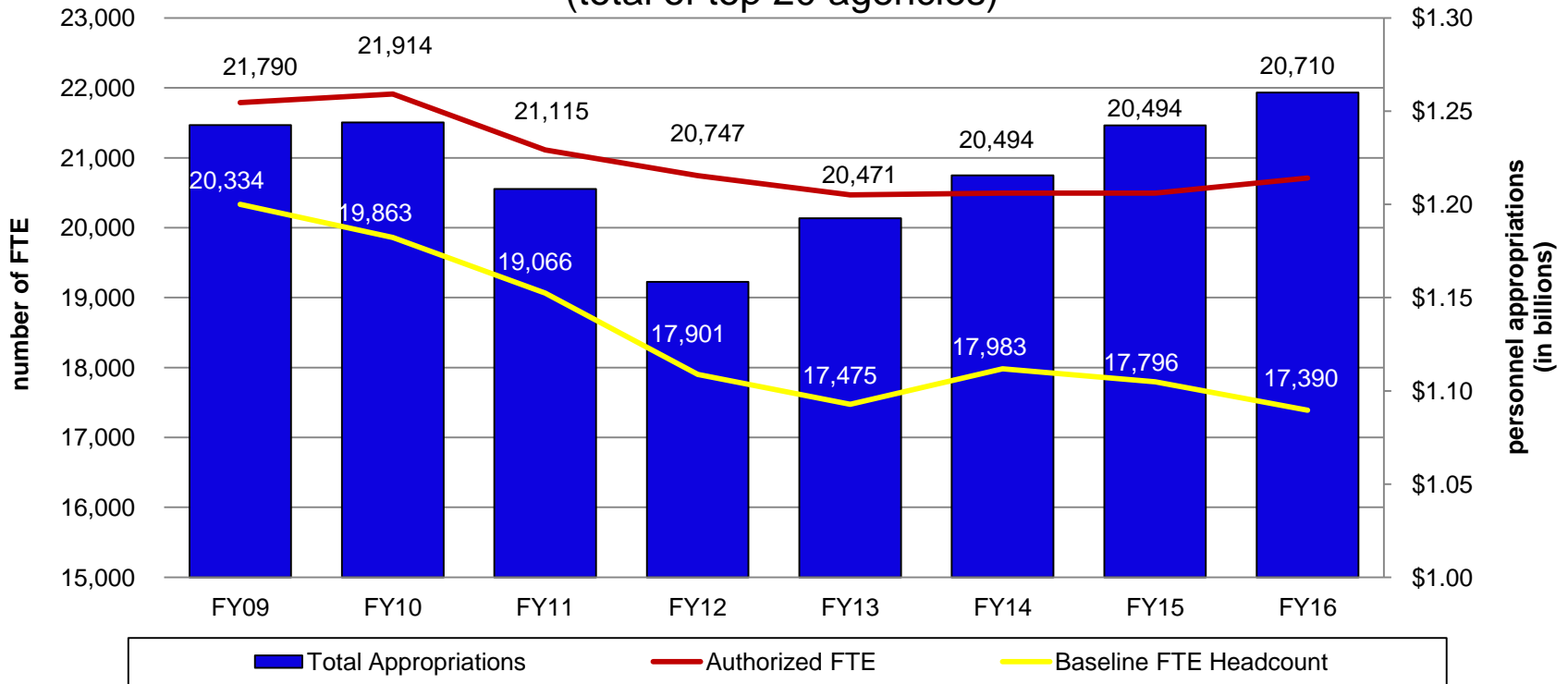
FY17 – FY21 General Fund Recurring Appropriation Outlook

(in millions of dollars)

	GAA FY17	GAA FY18	Outlook FY19	Outlook FY20	Outlook FY21
Total Recurring Revenue	\$ 5,607.8	\$ 5,931.8	\$ 6,142.4	\$ 6,382.7	\$ 6,630.3
Yr/Yr percent change	-9.5%	5.8%	3.6%	3.9%	3.9%
Recurring Appropriations:					
Public Education ¹	\$ 2,580.2	\$ 2,585.7	\$ 2,663.3	\$ 2,743.2	\$ 2,825.5
Higher Education ¹	\$ 786.9	\$ 779.3	\$ 823.3	\$ 848.0	\$ 873.5
Public Safety ²	\$ 426.4	\$ 428.2	\$ 435.7	\$ 443.3	\$ 451.1
Medicaid Base Spending ³	\$ 898.4	\$ 902.7	\$ 929.6	\$ 997.4	\$ 1,047.6
Medicaid Expansion Spending ⁴	\$ 40.3	\$ 93.1	\$ 114.5	\$ 152.9	\$ 184.2
Other Health & Human Services ¹	\$ 713.2	\$ 655.5	\$ 675.1	\$ 695.4	\$ 695.4
All Other Government ²	\$ 636.3	\$ 637.4	\$ 661.3	\$ 662.1	\$ 686.7
Subtotal of Recurring Appropriations	\$ 6,081.6	\$ 6,082.0	\$ 6,302.8	\$ 6,542.2	\$ 6,764.0
Yr/Yr percent change	4.3%	1.4%	4.5%	3.8%	3.3%
Subtotal of Adjustment Scenario:	\$ -	\$ -	\$ 8.0	\$ 23.0	\$ 23.0
Total Recurring Approp. + Adj. Scenario	\$ 6,081.6	\$ 6,082.0	\$ 6,310.8	\$ 6,565.2	\$ 6,787.0
Yr/Yr percent change	-0.9%	0.0%	3.8%	4.0%	3.4%
Surplus/(Deficit)	\$ (473.8)	\$ (150.2)	\$ (168.4)	\$ (182.5)	\$ (156.7)

State government has cut nearly 3,000 jobs since FY09

Personal Services and Employee Benefits Appropriations,
Baseline FTE Headcount and Authorized FTE
(total of top 20 agencies)

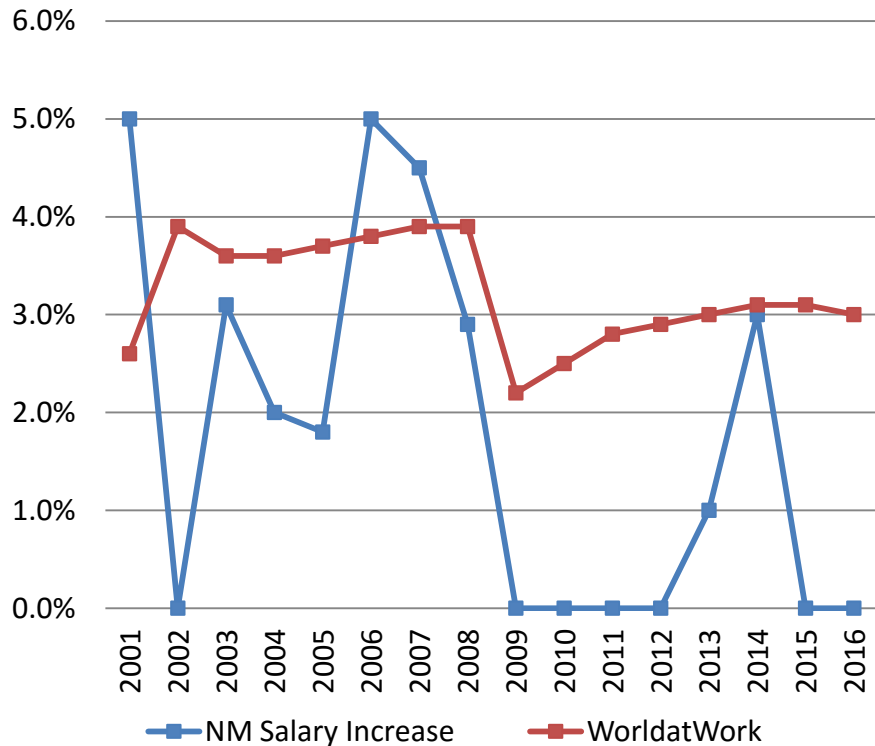


Source: LFC Files



High annual turnover and vacancy rates

New Mexico Salary Increases versus U.S. Market



Source: SPO

Vacancy and Turnover Rates for High-Demand Positions

	Annual Turnover Rate	Current Vacancy Rate
CYFD		
Youth Care Specialists	22%	26%
CPS Social Workers	29%	18%
Nurses	Unknown	Unknown
DPS		
State Police Officers	7%	20%
Forensic Scientists	20%	30%
Dispatchers	26%	22%
DOH		
Nurses	25%	21%
Miner's Hospital		
Nurses	25%	29%
Judiciary		
Court Clerks	32%	12%
Statewide Average	14%	13%

Source: LFC Files



Pension fund solvency remains threatened

- Investment returns weak in recent years
- Assumed discount rates are too high
- ERB's funded ratio for FY17 forward decreased to 61 percent
 - As a result of decreasing investment return assumption from 7.75% to 7.25%

Public Employee Retirement Association (PERA)				
(in millions of dollars)				
Valuation date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (3-2)	Funded Ratio (2/3)
(1)	(2)	(3)	(4)	(5)
	The market value of the assets held, adjusted for deferred gains and losses.	The present value of projected benefits attributable to service already rendered.	The portion of liability being amortized over time. <i>Having a UAAL does not always mean a plan is underfunded.</i>	The funded condition of a pension plan over a 30 year amortization period. <i>An upward trend is desirable.</i>
30-Jun-11	\$11,855.2	\$16,826.4	\$4,971.2	70.5%
30-Jun-12	\$11,612.0	\$17,788.0	\$6,176.0	65.3%
30-Jun-13	\$12,438.2	\$17,057.4	\$4,619.2	72.9%
30-Jun-14	\$13,482.8	\$17,784.4	\$4,301.6	75.8%
30-Jun-15	\$14,074.9	\$18,786.5	\$4,711.6	74.9%
30-Jun-16	\$14,654.8	\$19,474.2	\$4,819.4	75.3%
Source: PERA and LFC Files				

Educational Retirement Board (ERB)				
(in millions of dollars)				
Valuation date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (3-2)	Funded Ratio (2/3)
(1)	(2)	(3)	(4)	(5)
	The market value of the assets held, adjusted for deferred gains and losses.	The present value of projected benefits attributable to service already rendered.	The portion of liability being amortized over time. <i>Having a UAAL does not always mean a plan is underfunded.</i>	The funded condition of a pension plan over a 30 year amortization period. <i>An upward trend is desirable.</i>
30-Jun-11	\$9,642.2	\$15,293.1	\$5,650.9	63.0%
30-Jun-12	\$9,606.3	\$15,837.0	\$6,230.7	60.7%
30-Jun-13	\$9,828.5	\$16,362.3	\$6,533.8	60.1%
30-Jun-14	\$10,715.0	\$16,971.3	\$6,256.3	63.1%
30-Jun-15	\$11,472.4	\$18,014.4	\$6,542.0	63.7%
30-Jun-16	\$11,899.7	\$18,536.4	\$6,636.7	64.2%
Source: ERB and LFC Files				



Litigation and other spending pressures

- School equalization
- School capital outlay
- Food stamps (Hatten-Gonzales)
- Developmental disability programs
- Early childhood funding



Tax Reform Comparisons			
	2017 Regular Session		2017 Special Session
Components	HB412/HFIs	HB191/aCC	HB8
Purpose	Address pyramiding & use any remaining savings to reduce rates	Address complexity of GRT by sunseting expenditures and requiring study by RSTP	Starting with HB412, expand base further, create more limited anti-pyramiding provisions, use remaining savings to reduce rates
Anti-Pyramiding	New B2B services ded.	To be studied by RSTP	New B2B services ded. for select professional services and related occupations only
Cost	Est. \$380 million to \$700 million (current rates)	To be studied by RSTP	Est. \$47 million to \$84 million (current rates)
Most Affected	Professional and Technical Services, Mining and Oil & Gas Extraction, Construction (contractor services), Information Industry	To be studied by RSTP	Lawyers, Investment Managers, Accountants and Bookkeepers, Engineers, IT Services, HR Services, and Temp. Worker Services
GRT Rate Change	State & local rates set by formula (calculated by TRD in conj. w/DFA, LFC)	To be studied by RSTP	State rate set in statute initially at 3.6%, effective 2/2018 then recalculated by TRD, effective 1/2019
	State-level rate <i>increase</i> of [Unknown, need to revise estimates]		Initial state-level rate reduction of ~ 0.56%
	Local rates adjusted (add'l estimates needed)		Effective local rates changed through a 0.26% reduction to the muni 1.225% distributions; repeal medical HH
Tax Expenditure Elimination	Eliminated 57 tax expenditures	Eliminated 41 tax expenditures	Eliminates 74 tax expenditures
	Amended 14 add'l tax expenditures to include sunsets or convert to take against PIT/CIT	Directed RSTP to study each expenditure set for elimination	Amends 13 tax expenditures to include limitations, add sunsets, or expand deductions
	Repealed 20 anti-pyramiding deductions & exemptions (assumed to be covered under new B2B services ded.)		
Effective Date	7/1/2018	First block of repeals 7/1/19; second half 7/1/21	2/1/2018 followed by 1/1/2019 rate readjustments based on new data
Base Changes			
Food	No	No	No
Nonprofits	Yes, receipts of and sales to	No	Yes, repeals deduction for sales to nonprofits; intends to repeal exemption on receipts of nonprofits (<i>technical issue - introduced version does not repeal</i>) and adds new deduction for first \$250 thousand in gross receipts
Healthcare Sector	Yes, tax entire healthcare sector	No	Yes, tax entire healthcare sector but allow deduction for Medicare payments
Prescription Drugs	Yes	Yes	Yes
Gov't & School Purchases of Tangible Property	Yes	No	No
High-Wage Jobs	Yes	Yes	Yes
Newspapers	Yes	Yes	Yes
Textbooks	Yes	Yes	Yes
Lottery Retailers	Yes	Yes	Amends to limit deduction to lottery tickets for multi-state games only
Health Insurance Premium Surtax Rate	No	No	Yes, increases health insurance premium surtax to 2% to assist with GRT rate reduction
Motor Vehicle Excise Tax Rate	No	No	Yes, increases MVX rate to 6% to assist with GRT rate reduction and increase road funding
Other Actions	Rebranded GRT as "sales tax" (affects bonding)	Smoothed OGAS revenues & turned tax stabilization reserve into true rainy day fund	Rebrands GRT as "sales tax" (affects bonding)
	Allowed alternative evidence for NTTCs	Added market-based sourcing (corp. income tax reform)	Allows alternative evidence for NTTCs
	Redistributed 60 percent of motor vehicle excise tax to road funds	Exempted guaranteed payments from GRT (avoid double-taxation)	Aligns compensating tax with GRT (removes incentive for out-of-state purchases)
	Aligned compensating tax with GRT (removed incentive for out-of-state purchases)	Required separate reporting of certain large deductions to provide data on size of some tax expenditures	Requires separate reporting of certain large deductions to provide data on size of some tax expenditures
	Redistributed liquor excise tax to state & county DWI programs, drug courts, &		Adds market-based sourcing (corp. income tax reform)
	Created local government tax stabilization		