

May 28, 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: May 2010 General Fund Revenue Tracking Report Reflecting Revenue Accruals Through March 2010

Summary:

- Actual recurring revenue accruals through March¹ are tracking about \$34 million below forecast. Major contributors to the shortfall are a combined shortfall of \$130 million in the income taxes, Gross receipts and Compensating Tax, which is partially offset by a surplus of \$93 million of oil and gas taxes and royalties.
- The gap between actual recurring revenue and the December consensus forecast fell by about \$14 million over the last month. Improvement is due mainly to oil and gas taxes and royalties which continue to come in above forecast.
- Major revisions were reported in Gross Receipts Tax (GRT) and Withholding distributions. About \$50 million was moved from GRT revenue to Withholding in response to revised tax returns from periods dating back more than a year. Although the net effect on total revenue was minimal, the revisions substantially change apparent trends in these specific revenues.²
- Non-recurring revenue is expected to fall \$12 million short of forecast. Savings from voided capital outlay projects in Senate Bill 182 2010 Special Session are now expected to be only \$127 million, down from \$141 million estimated at the time the bill was approved.

Table 1: FY10 Revenue Tracking

- Revised tax returns for periods going back more than one year resulted in a decrease of GRT distributions of approximately \$50 million but a corresponding increase in Withholding. This leaves year-to-date GRT tracking \$53.7 million or 3.2 percent below forecast. Despite this downward revision, GRT returns for

¹ Accrued revenue for March is available for almost all General Fund revenues but some figures are still preliminary. These include the Insurance Premiums Tax, Oil and Gas School and Conservation Taxes and State Treasurer’s investment earnings. In addition to these accruals, this report reflects preliminary information on Federal Mineral Leasing royalties for April and May, State Land Office revenue for April, and Personal and Corporate income tax revenue accruals for April.

² Since \$11.5 million of the revenue was distributed to the General Fund during FY09, the adjustment to FY10 revenue was about \$34 million. This means that FY09 GRT revenue was overstated – and Withholding was understated – by \$11.5 million.

March activity suggest that the tax base has finally stopped decreasing as illustrated in Figure 2.

- Withholding distributions were \$58 million higher than forecast in March and are now tracking \$52 million or 5.5 percent above forecast for the year. Most of the increase was due to revised tax returns, some of which covered periods in FY09 as well as FY10. According to the Taxation and Revenue Department, \$11.5 million of the shifted revenue was attributable to filing periods in FY09. Adjusting for this and other timing changes, FY10 Withholding is down about 0.6 percent compared with FY09. This is a much smaller decrease than was expected based on weakness in wages and salaries.
- Cash deposits of Personal Income Tax (PIT) payments in April totaled \$106.9 million, compared with \$131.2 million in April 2009, a decrease of 18.6 percent. These payments reflect both amounts due with tax year 2009 returns and first quarterly payments for tax year 2010. A portion of these amounts are reflected in the preliminary April accrual of Final Settlements and Estimated Payments. The remainder will be transferred in subsequent months. After the changes to Withholding, it now appears that net PIT distributions for the full year will be about \$23 million or 2.3 percent below forecast.
- Preliminary net corporate income tax revenue for March was \$20 million below expectations. This revenue is now tracking \$50 million or 31 percent below forecast. Film credit approvals were \$61 million for the fiscal year through April. This compares with a forecast of \$65 million for the full year.
- Federal mineral leasing royalties in April and May were \$17 million higher than expected, a reflection of higher natural gas prices during January and February. Oil and gas school tax accruals for February were \$4 million higher than expected.

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

- Year-to-date through March, total recurring revenue was down by 16 percent compared with the same period of FY09. A 9 percent decline is forecast for the full year.
- General sales taxes – gross receipts and compensating taxes – were down by 14 percent compared with a 7 percent full year forecast decline.
- Personal income tax was down 1 percent compared with 3 percent growth forecast for the full year.
- Corporate income tax was down 71 percent compared with 17 percent decline for the full year. These values were adjusted to reflect accounting changes introduced in the middle of FY09.
- Oil and gas revenues were down 29 percent compared with a 30 percent full year forecast decline.

Table 3: Outlook for the Remainder of FY10:

- Cash deposits in April suggest that GRT, Withholding and Corporate income tax will be generally consistent with the forecast. Personal income tax appears to be somewhat weaker than forecast.

- The recent trajectory of oil and gas prices suggests that oil and gas taxes, royalties and bonus payments will come in slightly above forecast amounts in the remainder of the fiscal year.

Bottom line: Oil and gas-related revenue will increase relative to the forecast but PIT revenue could decrease by a similar amount. Given the uncertainty in these expectations, we expect end-of-year revenue will fall somewhere in a range of \$0 to \$75 million less than the current consensus forecast.

Figure 2: Taxable gross receipts trends

- Taxable gross receipts (TGR) for March business activity increased to over \$3.9 billion, an increase of 2.9 percent compared with the same month last year. This was the first such year-over-year increase in over a year.
- The three-month moving average of TGR is still on a downward trend because of the low levels reported in January and February.
- Year-over-year comparisons should continue to be positive in coming months because last year's revenues were so weak.
- The March report reflected improvements in the following industries:
 - Mining and Oil and Gas extraction: 40% Y/Y increase
 - Manufacturing: 33% Y/Y increase
 - Information and Cultural Industries: 70% Y/Y increase
 - Professional, Scientific and Technical Services: 30% Y/Y increase
 - Educational Services: 37% Y/Y increase
 - Arts, Entertainment and Recreation: 30% Y/Y increase
- The March report also showed a continued decline in construction of about 18 percent year-over-year, however this is an improvement from the average 26 percent decline construction has seen so far this fiscal year.

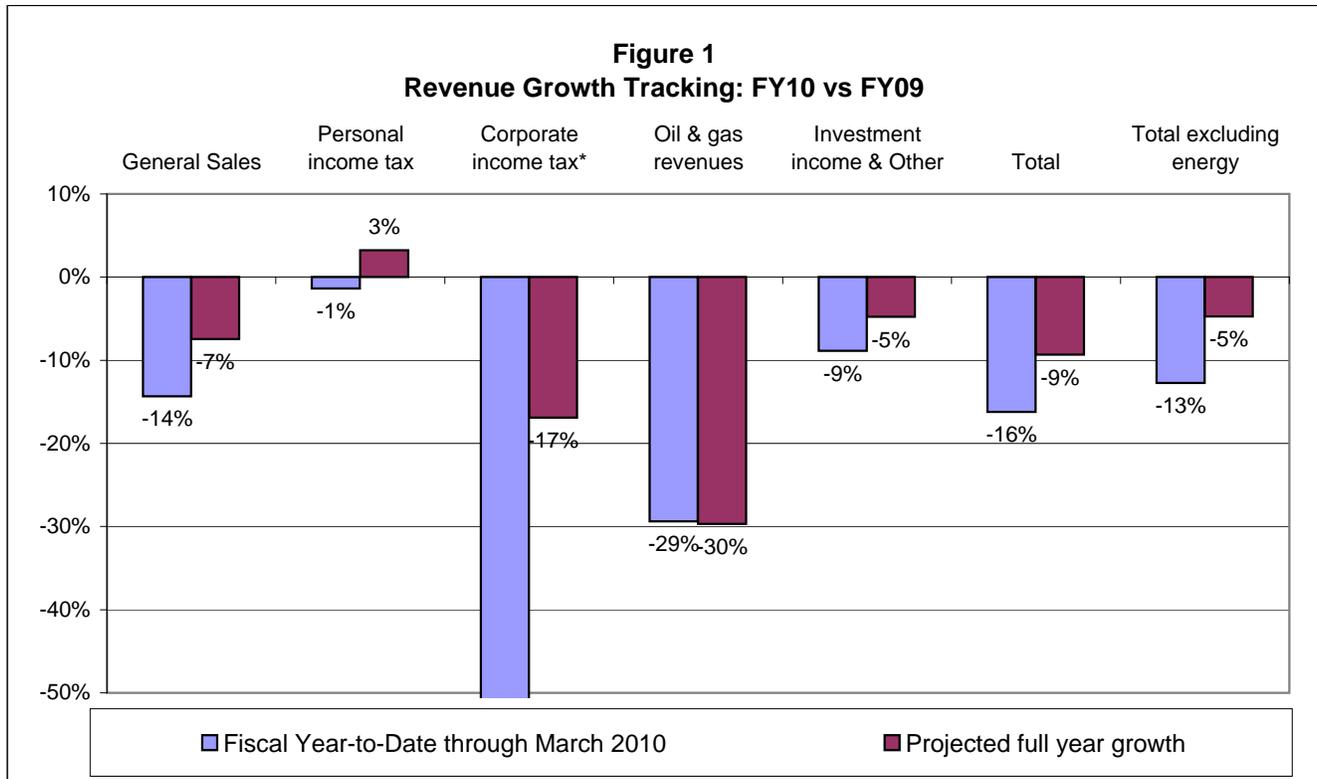
Table 1
FISCAL YEAR 2010 GENERAL FUND MONTHLY REVENUE TRACKING
(dollars in millions; blue font indicates actual revenue, italics indicate preliminary actual revenue)

		ACTUAL REVENUE ACCRUALS										FORECAST REVENUE			FY10	% Chng	TRACKING ERROR			FY09	Row
Row #		July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Actual + Forecast	FY09	FY 10	YTD	YTD	Actual	#	
		Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Est.	Est.	Est.	Forecast		Dec. 09	Adj. % Error	\$ Error			
1	Gross Receipts Tax	127.6	140.6	132.7	133.6	137.7	156.4	133.3	129.0	103.2	141.2	148.9	164.0	1,648.3	-10.0%	1,702.0	-3.2%	(53.7)	1,831.9	1	
2	Compensating Tax	4.0	3.9	4.6	4.0	4.4	5.0	2.8	3.7	5.8	4.7	4.7	5.6	53.0	-24.2%	58.0	-8.6%	(5.0)	69.9	2	
3	TOTAL GENERAL SALES TAXES	131.5	144.5	137.3	137.6	142.0	161.4	136.1	132.7	109.0	145.9	153.6	169.6	1,701.3	-10.5%	1,760.0	-3.3%	(58.7)	1,901.9	3	
4	Tobacco Products & Cigarette Taxes	3.2	3.5	4.6	4.1	3.3	3.1	4.1	2.8	3.9	4.3	4.6	4.4	45.9	-7.3%	47.2	-2.7%	(1.3)	49.6	4	
5	Liquor Excise Tax	2.1	2.2	2.2	2.2	2.1	2.6	1.5	1.8	2.1	2.0	1.7	2.9	25.4	-1.5%	26.5	-3.8%	(1.0)	25.8	5	
6	Insurance Premiums Tax	1.4	34.3	0.3	3.8	31.6	0.4	1.0	29.3	2.9	0.8	35.5	0.2	141.5	16.1%	133.9	5.7%	7.6	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	8.5	7.3	7.7	8.1	90.4	-10.0%	92.5	-2.3%	(2.1)	100.5	8	
9	Gaming Excise Tax	5.4	5.1	5.0	5.2	4.9	5.1	5.5	5.8	6.0	5.7	6.8	5.6	66.3	-4.1%	65.3	1.6%	1.0	69.2	9	
10	Leased Vehicle Surcharge	1.0	0.5	0.7	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.6	5.7	15.5%	5.5	3.2%	0.2	4.9	10	
11	Other	0.4	0.1	0.2	0.1	0.1	0.0	0.8	0.3	0.2	0.2	0.0	0.2	2.7	309.7%	1.9	42.9%	0.8	0.7	11	
12	TOTAL SELECTIVE SALES TAXES	\$21.8	\$53.8	\$22.2	\$23.1	\$48.3	\$18.0	\$20.1	\$47.2	\$24.0	\$20.7	\$56.9	\$43.8	399.9	-0.9%	394.5	1.4%	5.5	403.4	12	
13	Withholding	87.6	68.6	79.9	80.5	68.1	105.5	70.7	70.7	141.9	74.0	71.9	83.0	1,002.4	4.8%	950.2	5.5%	52.2	956.9	13	
14	Final Settlements & Estimated Payments	24.3	12.0	36.1	13.5	8.2	13.0	43.7	8.0	18.3	64.3	35.9	65.6	342.9	-7.6%	393.0	-12.7%	(50.1)	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	0.0	2.9	0.8	7.5	25.6	-1.1%	30.0	-14.6%	(4.4)	25.9	15	
16	Fiduciary Tax	0.0	0.3	-0.1	-3.0	-0.6	0.9	0.0	0.0	0.6	1.7	1.1	0.1	1.0	-92.9%	5.0	-80.7%	(4.0)	13.7	16	
17	GROSS PERSONAL INCOME TAX	112.3	80.9	117.0	97.4	75.6	119.8	120.1	79.2	160.7	142.9	109.8	156.3	1,371.9	0.3%	1,378.2	-0.5%	(6.3)	1,367.2	17	
18	Less: Refunds, distributions to other funds	8.4	7.7	12.7	23.6	8.1	102.2	79.2	56.4	47.9	26.8	15.6	9.4	397.9	-2.6%	380.7	4.5%	17.2	408.7	18	
19	NET PERSONAL INCOME TAX	103.8	73.2	104.3	73.9	67.5	17.7	40.8	22.8	112.8	116.1	94.2	146.8	974.1	1.6%	997.5	-2.3%	(23.4)	958.5	19	
20	NET CORPORATE INCOME TAX	-2.7	1.0	-1.4	32.6	-9.0	-8.4	12.6	5.3	11.9	11.7	24.8	31.2	109.7	-32.5%	160.0	-31.4%	(50.3)	162.5	20	
22	Oil and Gas School Tax	22.6	25.0	21.3	26.4	28.3	29.7	34.7	28.3	24.2	24.0	24.3	24.1	313.0	-15.5%	290.8	7.6%	22.2	370.4	22	
23	Oil Conservation Tax	1.1	1.3	1.1	1.3	1.4	1.5	1.7	1.4	1.3	1.3	1.3	1.3	16.0	-12.2%	15.3	5.1%	0.8	18.3	23	
24	Resources Excise Tax	0.6	0.3	1.3	0.8	0.7	1.2	0.8	0.7	0.8	1.2	1.1	0.9	10.4	-7.1%	10.0	4.3%	0.4	11.2	24	
25	Natural Gas Processors Tax	3.5	2.9	4.2	3.7	3.5	3.3	3.2	3.0	3.3	3.4	3.8	3.2	40.9	1.5%	41.0	-0.2%	(0.1)	40.3	25	
26	TOTAL MINERAL PROD. TAXES	27.9	29.5	27.9	32.3	33.9	35.7	40.4	33.4	29.6	29.9	30.4	29.5	380.4	-13.6%	357.1	6.5%	23.3	440.2	26	
27	LICENSE FEES	2.2	1.9	1.9	1.8	1.9	7.5	1.9	4.1	7.7	10.5	2.9	2.8	47.1	-6.0%	47.5	-0.8%	-0.4	50.1	27	
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	436.8	0.8%	436.5	0.1%	0.3	433.5	28	
29	State Treasurer's Earnings	3.5	1.8	1.6	1.0	1.4	5.4	0.1	1.2	3.5	0.3	3.4	-4.1	18.8	-72.3%	21.5	-12.8%	(2.7)	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	TOTAL INVESTMENT EARNINGS	55.5	53.8	53.6	53.0	53.4	57.4	52.1	53.2	55.5	52.2	55.3	47.7	642.7	-7.2%	645.1	-0.4%	(2.4)	692.5	31	
32	Federal Mineral Leasing Royalties	22.8	22.5	23.8	27.2	27.5	19.9	34.6	34.7	35.5	37.3	34.4	29.3	349.6	-31.1%	301.0	16.1%	48.6	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	6.8	2.3	1.2	1.3	55.5	52.3%	33.8	64.2%	21.7	36.4	33	
34	TOTAL RENTS & ROYALTIES	24.4	28.5	33.3	32.0	33.5	24.7	41.1	39.5	42.3	39.6	35.6	30.6	405.1	-25.5%	334.8	21.0%	70.3	543.7	34	
35	TRIBAL REVENUE SHARING	0.1	0.0	16.2	0.1	0.0	15.6	0.2	0.0	15.4	0.7	6.2	10.0	64.3	-1.7%	63.1	1.9%	1.2	65.4	35	
36	MISCELLANEOUS RECEIPTS	1.4	1.1	1.4	2.0	1.4	1.5	3.1	1.3	2.5	5.9	2.5	17.1	41.2	-7.0%	41.8	-1.3%	(0.6)	44.3	36	
37	REVERSIONS	0.0	0.0	0.0	1.0	3.7	1.7	0.7	5.2	0.2	2.3	1.6	14.7	31.1	-45.7%	30.0	3.6%	1.1	57.3	37	
38	TOTAL RECURRING REVENUE	365.9	387.4	396.7	389.3	376.8	332.8	349.1	344.7	410.8	435.5	464.0	543.8	4,796.9	-9.8%	4,831.3	-0.7%	(34.4)	5,319.8	38	
39	HB3 - Laws 2009 SS, Chapter 2	0.0	0.0	0.0	0.0	0.0	33.3	5.0	0.1	1.2	0.0	0.0	68.2	107.8	NA	107.8	NA	0.0	0.0	39	
40	HB16 - Laws 2009 SS, Chapter 4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.7	NA	0.7	NA	0.0	0.0	40	
41	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	41	
42	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	0.0	109.3	NA	109.0	NA	0.2	0.0	42	
43	SB182 - Laws 2010, Chapter 105	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	127.4	127.4	NA	141.1	NA	-13.7	0.0	43	
44	Executive Orders & Furloughs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	87.6	87.6	NA	87.6	NA	0.0	0.0	44	
45	2009 SS Reserve Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	115.0	115.0	NA	115.0	NA	0.0	0.0	45	
46	Non-Recurring	0.0	0.0	0.1	0.3	0.5	0.4	0.4	0.0	0.0	0.0	0.0	0.0	1.7	NA	0.0	NA	1.7	425.6	46	
47	TOTAL NON-RECURRING REVENUE	0.0	0.0	0.1	0.3	0.5	137.0	15.1	0.7	1.2	0.0	0.0	398.2	553.2	NA	565.0	NA	(11.8)	425.6	47	
48	GRAND TOTAL REVENUE	365.9	387.4	396.8	389.6	377.3	469.8	364.2	345.4	412.0	435.5	464.0	942.1	5,350.1	-6.9%	5,396.3	-0.9%	(46.2)	5,745.4	48	

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

Revenue Category	Fiscal Year-to-Date through March 2010		Year-to-date growth	Projected full year growth: December 2009 Forecast
	FY09	FY10		
General sales taxes	\$1,438.7	\$1,232.2	-14%	-7%
Personal income tax	\$625.4	\$616.9	-1%	3%
Corporate income tax*	\$145.2	\$42.1	-71%	-17%
Oil & gas revenues	\$835.1	\$589.8	-29%	-30%
Investment income & other	\$957.2	\$872.5	-9%	-5%
Total recurring revenue	\$4,001.6	\$3,353.5	-16%	-9%
Total excluding oil & gas	\$3,166.5	\$2,763.7	-13%	-5%

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



Reflects Actual accruals through March 2010.

Figure 2
Taxable Gross Receipts
 (\$ in billions)

