

New Mexico Fiscal Policy Project

NEW MEXICO REVENUES AND EXPENDITURES: A MID-RECESSION SNAPSHOT

August 2010

Some have proclaimed that the Great Recession is over, but the employment numbers in New Mexico tell a much different story. The recession is far from over in the Land of Enchantment and it looks very likely that things will not get much better in the year to come.

New Mexico ranked 49th in the country in terms of job losses in June 2010 (the most recent month for which employment numbers are available). In

other words, only two states (of the 50 states and DC) had an employment picture worse than New Mexico's. Our unemployment rate was 8.2 percent in June and forecasters believe New Mexico's unemployment rate will still be as high as 6.3 percent as late as 2015.

The state's economic health is usually measured by two indicators: employment and personal income. When employment and personal income levels rose sharply between fiscal years 2003 and 2008, the state's revenue grew in tandem. As sales and income tax revenue levels

went up so did state spending. Beginning in 2008, as the recession began to take hold, employment and personal income levels began to fall, which severely curtailed revenue collection. With less revenue, the state can offer fewer services — such as medical coverage for

children whose parents do not have private health insurance. At the same time, when employment and personal income levels take a tumble, the need for these services goes up.

“The impact of the recession on New Mexico government revenues has been staggering and the state is still afloat in the backwash from the recession that began in December 2007.”

While the state cannot borrow money to pay for needed services, the federal government can. Federal stimulus money appropriated in early 2009 mitigated much of the economic pain inflicted on New Mexico by the recession, actually enabling state spending to increase slightly though fiscal year 2011 (FY11). A large percentage of the federal stimulus spending helped the state plug holes in the public health care and education budgets. However, much of this stimulus spending is temporary and will run out within the next year, sending the state budget into a tailspin.

With employment and revenue collections levels still anemic, the state will either have to find new ways to raise revenue or slash spending even further.

THE RUN-UP IN REVENUE

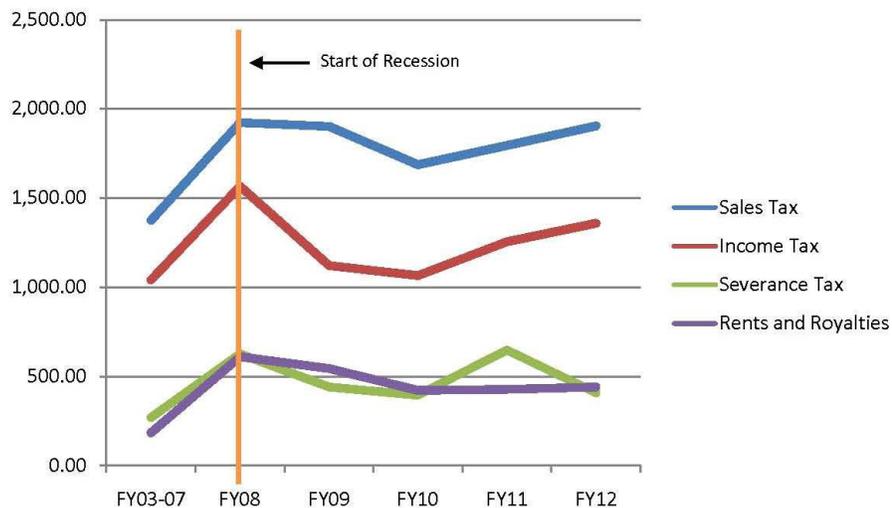
The growth in New Mexico’s general fund revenues, and employment and personal income levels in the early part of the new century mirrored what was happening on the national level: The housing bubble prompted a boom in construction and other industries that are impacted by home sales, and high energy prices led to high tax collections from New Mexico’s crude oil and natural gas producing industries. This growth inflated both New Mexico’s revenue collection and economy. Overall, revenues grew 45 percent from \$3.8 billion in FY03 to \$6 billion in FY08. Revenue from the gross receipts tax (GRT) alone grew by nearly 40 percent. Not surprisingly, state spending grew as well, although a big portion of this spending went to personal income tax cuts, which were phased in between FY03 and FY08.

But what went up also came down. Construction, which played an outsized role in the growth of GRT revenues during the FY03–08 expansion, also played a big role in the downturn. The construction sector has lost almost 30 percent of its jobs since the beginning of the recession, going from 59,200 jobs in December 2007 to 42,600 jobs in May 2010. Construction employment makes up just 5 to 6 percent of the state’s total

employment, but plays a much bigger role in GRT volatility. For example, at the height of the housing bubble in FY07, GRT revenues from construction grew at an 8.5 percent rate over FY06. For comparison, overall GRT revenue grew 5 percent during that same time period.

Taxes, rents and royalties on mineral extraction — mainly oil and natural gas — nearly tripled from FY03 to FY08, rising from about \$452 million to \$1.2 billion. Minerals taxes then toppled by a third, from \$1.2 billion in FY08 to \$815 million in FY10. Minerals taxes continued on a wobbly trajectory in the next two years growing to \$1.1 billion in FY11 and back down to a forecasted \$800 million in FY12.

Graph I
New Mexico General Fund Revenues (in millions)



	FY03	FY08	FY09	FY10	FY11	FY12
Sales Tax	\$1,375.0	\$1,922.9	\$1,902.0	\$1,687.2	\$1,794.4	\$1,903.8
Income Tax	\$1,040.0	\$1,566.1	\$1,121.0	\$1,065.0	\$1,254.7	\$1,358.2
Severance Tax	\$268.4	\$625.9	\$440.2	\$394.3	\$647.7	\$406.5
Rents & Royalties	\$183.6	\$610.3	\$543.7	\$421.6	\$426.7	\$440.9
Total General Fund Revenues	\$3,948.0	\$6,062.8	\$5,745.0	\$5,452.4	\$5,203.0	\$5,436.4

Note: The pre-recession time period (FY03 to FY07) is abbreviated on the line graph for simplicity.

Source: Testimony on General Fund Consensus Revenue Estimates, July 21, 2010

The impact of the recession on New Mexico government revenues has been staggering and the state is still afloat in the backwash from the recession that began in December 2007. Revenues fell by 15 percent, from \$6 billion in FY08 to \$5.2 billion in FY11. Revenue will

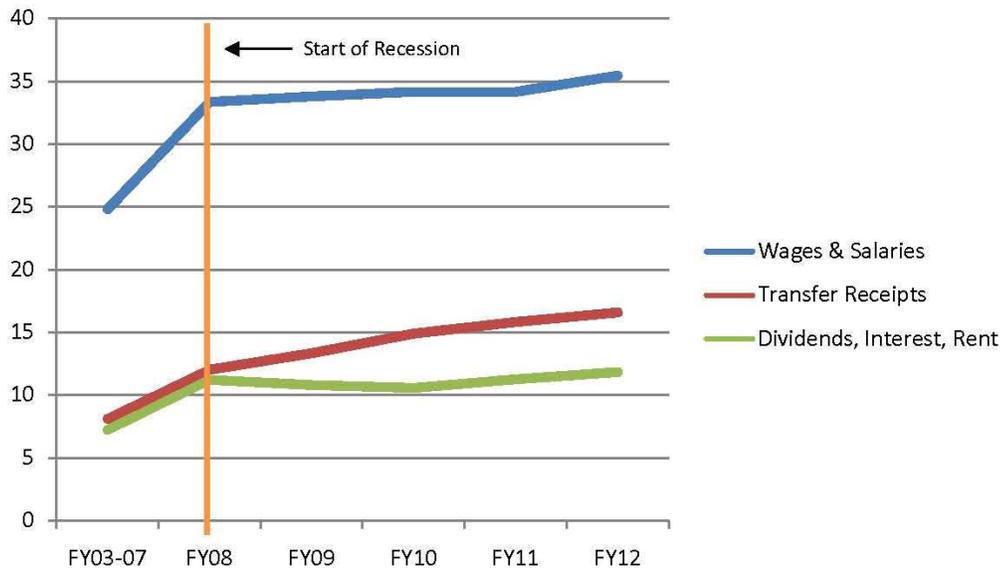
“As the state’s economy weakened, transfer receipts kept it from free fall.”

rise only modestly in FY12, to \$5.4 billion. Graph I (“New Mexico General Fund Revenue,” page 2) gives an overview of the state’s slowly recovering revenue trend for this year and next.

PERSONAL INCOME

State personal income grew very rapidly between FY03 and FY08, as shown in Graph II (“New Mexico Personal Income — Actual and Forecast”). State personal income is composed of income from wages and salaries, dividends, interest and rent, and transfer receipts. Transfer receipts are income sources such as Social Security payments, unemployment insurance payments, food stamps, and Medicare and Medicaid. Most of these transfer receipts are federally funded and they actually allowed state personal income to grow very slightly between FY08 and FY10. During those same years other personal income sources slowed to a

**Graph II
New Mexico Personal Income—Actual (through FY10) and Forecasts
(in billions)**



	FY03	FY08	FY09	FY10	FY11	FY12
Wages & Salaries	\$24.797	\$33.332	\$33.768	\$33.265	\$34.155	\$35.436
Dividends, Interest, Rent	\$7.22	\$11.195	\$10.784	\$10.55	\$11.246	\$11.823
Transfer Receipts	\$8.105	\$12.004	\$13.317	\$14.882	\$15.8	\$16.569
Total Personal Income	\$47.056	\$65.198	\$66.285	\$67.153	\$69.97	\$73

Note: The pre-recession time period (FY03 to FY07) is abbreviated on the line graph for simplicity.
Source: FOR-UNM: A Quarterly Economic Forecast of the New Mexico Economy, May 2010

crawl, but transfer receipts grew by \$1 billion in both FY09 and FY10, taking up the slack and keeping the state’s economy from shrinking.

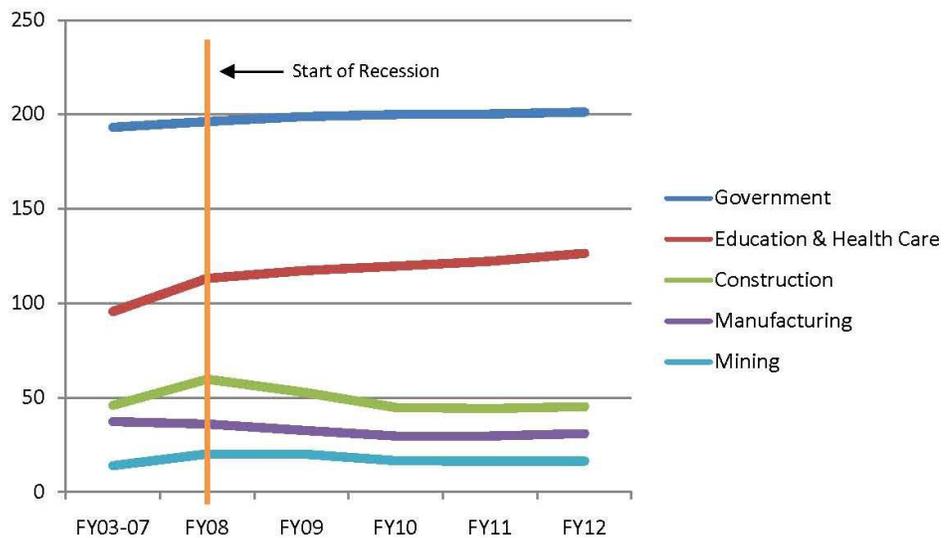
Transfer receipts are what economists call ‘automatic stabilizers’ because they counteract the effects of an economic downturn. For that reason transfer receipts are said to have a counter-cyclical effect — they offset the effects of the recession. For example, unemployment insurance compensation increased from \$105 million in 2006 to \$200 million in 2008. About one-third of the transfer receipts amount is due to the Social Security Program, which grew from \$3.3 billion in 2006 to \$3.7 billion in 2008. Medical benefits, which are about half of transfer receipts, grew from \$4.7 billion in 2006 to \$ 5.7 billion in 2008. Transfer receipts have been growing on a smooth path for decades and will continue growing into FY11 and FY12, helping the state in the difficult transition to the post-recession environment. As the state’s economy weakened, transfer receipts kept it from free fall.

EMPLOYMENT

Employment is the other economic indicator that tracks the health of the state’s economy. Of course, most people depend on their jobs for the necessities of life: food, clothing, health care, and shelter. Weakness in the state’s economy is reflected in employment growth, or the

lack of employment growth. Graph III (“New Mexico Employment—Actuals and Forecasts”) shows that New Mexico lost more than 50,000 jobs between FY08 and FY10. This represented 6 percent of New Mexico total employment. Given that the state’s potential workforce grows by at least 1 percent each year (that is, the increase in New Mexicans who could potentially enter the workforce), New Mexico has fallen behind in needed jobs by perhaps 8 percent of total employment, or some 68,000 jobs. The drop in jobs makes it clear why transfer receipts such as unemployment compensation and food stamps had to increase so very rapidly. The drop in employment is causing enormous harm to New Mexico’s workforce, and unemployment compensation

Graph III
New Mexico Employment—Actuals and Forecasts
(in thousands)



	FY03	FY08	FY09	FY10	FY11	FY12
Construction	45.9	59.68	52.83	44.7	44.1	45.1
Mining	13.95	20.1	20.1	16.5	16.3	16.4
Manufacturing	37.3	36	32.7	29.6	29.6	30.9
Education, Health Care	95.6	113.1	117.1	119.5	122.1	126.3
Government	193.15	196.2	198.75	199.9	200.16	201.2
Total	770.6	856.38	831.66	805.2	813.5	829.96

Note: The pre-recession time period (FY03 to FY07) is abbreviated on the line graph for simplicity.

Source: FOR-UNM: A Quarterly Economic Forecast of the New Mexico Economy, May 2010

and food stamps are only a stop-gap measure — the state’s economy needs to resume its pre-recession upward trajectory. That can only happen as the national economy recovers, since the state cannot stimulate its own economy.

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Federal dollars in the form of Social Security, food stamps, and health insurance programs are a net addition to the New Mexico economy, but a healthy recovery requires the private sector to return to

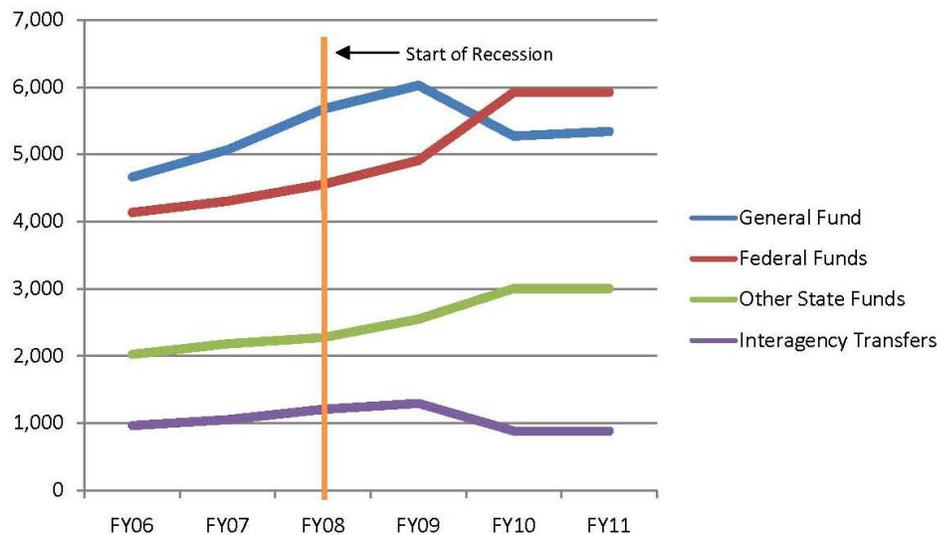
sustained growth. The federal stimulus of 2009 and the financial rescue program enacted in 2008 kept the national economy from another Great Depression, but the stimulus was not enough. The most recent national GDP growth rate was a rather anemic 2.4 percent. Some analysts expect the national unemployment rate to be high for the next ten years.

REVENUES AND SPENDING

State government’s drop in revenues and spending would have been a drag on the state’s economy and its employment picture if the federal government had not stepped up to provide a buoy. The fall in general fund revenues and expenditures tells only part of the story. According to data from the Legislative Finance Committee’s Post Session Review (FY06

to FY10 annual editions) total appropriations from all sources rose steadily from \$11.8 billion in FY06 to \$15.1 billion in FY11, an increase of one-quarter over that six-year period. Federal government funding in New Mexico rose from \$4.1 billion in FY06 to almost \$6 billion in FY11 for growth of almost 45 percent. This increase in federal funding allowed the state to keep health care and education expenditures intact when the state’s capacity had deteriorated substantially. Graph IV (“New Mexico State Expenditures”) shows how the federal government stepped in to cover the gap as state capacity was degraded by the recession.

Graph IV
New Mexico State Expenditures (in millions)



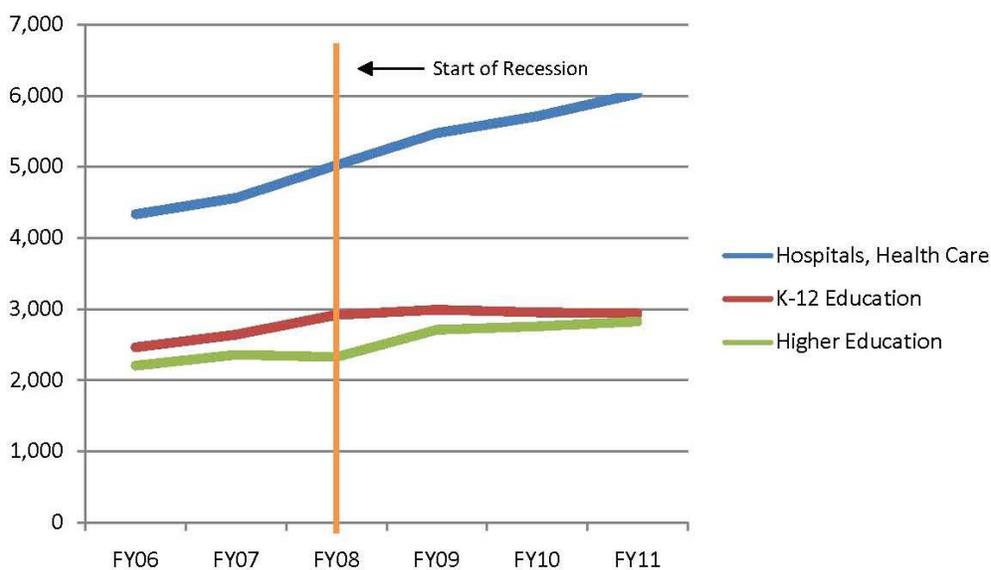
	FY06	FY07	FY08	FY09	FY10	FY11
State General Fund	\$4,663	\$5,071	\$5,675	\$6,026	\$5,473	\$5,339
Other State Funds	\$2,023	\$2,180	\$2,273	\$2,549	\$2,711	\$3,003
Interagency Transfers	\$963	\$1,052	\$1,206	\$1,294	\$1,218	\$883
Federal Funds	\$4,134	\$4,304	\$4,554	\$4,909	\$5,555	\$5,919
Total	\$11,784	\$12,608	\$13,673	\$14,751	\$14,957	\$15,145

Source: State of New Mexico Legislative Finance Committee 2010 Post Session Review

Finally, Graph V (“Total Expenditures from All Sources”) shows that the federal government made an especially crucial contribution to health care in New Mexico between FY06 and FY11. The federal contribution to hospitals and health care rose by 50 percent over those five years. Federal spending for K–12 education also rose by about half a billion and higher education received an additional \$600 million. This funding helped account for the steady growth in health care and education employment, which is indicated by the red line on Graph III. The federal government indeed threw a life buoy to the New Mexico state government in an era of unprecedented insecurity.

In conclusion, the federal government compensated for much of the economic pain inflicted by the recession on New Mexico state government, and automatic stabilizers stepped in to maintain state personal income on an upward trajectory during the recession. However,

Graph V
Total Expenditures from All Sources (in millions)



	FY06	FY07	FY08	FY09	FY10	FY11
Hospitals, Health Care	\$4,333	\$4,561	\$5,023	\$5,471	\$5,710	\$6,027
K-12 Education	\$2,461	\$2,637	\$2,916	\$2,990	\$2,954	\$2,937
Higher Education	\$2,203	\$2,357	\$2,323	\$2,710	\$2,759	\$2,826
Total	\$11,784	\$12,608	\$13,673	\$14,751	\$14,956	\$15,146

Source: State of New Mexico Legislative Finance Committee 2010 Post Session Review

most of the federal stimulus funds, including the increases in automatic stabilizers like unemployment compensation, are temporary measures. In order for state government finances to regain their health, the state’s economy will need to revive. The current recession’s impact will continue to be felt in New Mexico until the national economy has revived. Full employment is the best indicator of economic health and the forecast is that the unemployment rate in New Mexico will not improve much until FY15.

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