

No crystal ball for NM revenue projections

Written by By Joey Peters NM Political Report
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The amount of money expected to come into New Mexico's coffers this year looks better than previous estimates, but with several caveats.

At the beginning of the year, dipping oil and gas prices put the state's projected surplus lower than previously expected levels.

But now, new projections show \$136 million more coming to New Mexico in revenue through the end of the year, a 2.2 percent increase compared to similar forecasts in February.

In total, revenue projections for New Mexico add up to \$6.25 billion.

Yet while the projections look good and news headlines gush over this seemingly sudden and unexpected "money under the mattress," state Legislative Finance Committee Chief Economist Peter van Moorsel made sure to present his report with an important stipulation.

At a hearing in the state Capitol last week, van Moorsel told committee members that many of the revenue sources in the report were "volatile" and could change.

"What comfort level do you have that we can sustain this increase?" asked state Rep. Luciano "Lucky" Varela, D-Santa Fe, during the hearing.

It's a question that goes back to the heart of the common misunderstanding with the practice of

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predicting money that isn't there yet.

"Most forecasts are just that," said Suzan Reagan, a senior program manager at the University of New Mexico's Bureau of Business and Economic Research. "They are projections."

While revenue forecasts are often useful for businesses that want to know what to look for when they're starting up or governments that need guidance when writing budgets, they're not at all helpful for predicting money that's currently in the bank.

"It's very dicey at best to come up with a forecast that's within a hundred dollars" of the actual revenues when they finally come along, according to Reagan.

"They're not set in stone," Reagan told *New Mexico Political Report* in a recent interview. "They're based on a set of assumptions, and assumptions can change."

Biggest increase in cash from the most unpredictable source

One of the most volatile revenue sources happens to be in an area where the LFC projects the biggest revenue increase from its earlier projections this year—corporate income taxes.

For the entire calendar year of 2015, LFC now projects corporate tax revenues to come in at \$268 million, nearly \$38 million higher than earlier predictions from this year.

But revenue projections for corporate taxes are shaky for many reasons. For one, they rely on corporate tax payments coming in consistently every quarter. Yet in reality, corporations sometimes file quarterly taxes early. Other times, they can file taxes late.

These unpredictable payment periods can throw off projections for when that money is

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expected land in state coffers.

Other unstable aspects of corporate revenue add to the predicament. One big reason is that projections are essentially guessing how much money a business is going to make at a certain time. That essentially amounts to predicting how well businesses will perform—a tough task to say the least.

“Let’s say a company starts laying people off,” Reagan says. “Then you’re going to have less taxes.”

In more favorable periods, businesses shore up plans to expand capital and hire more employees.

But at the end of the day, New Mexico isn’t exactly a bastion of the private sector.

“Quite frankly, we don’t have a lot of industry in this state,” said state Sen. John Arthur Smith, D-Deming, chair of the Legislative Finance Committee. “We don’t have many corporations.”

That means that the share of corporate tax in New Mexico is spread relatively thin.

Though Smith said it’s “great” to see the revenue uptick in his committee’s projections, he told *New Mexico Political Report* that he’s not sold that the numbers indicate strong long-term gains.

“I’d like to see a sustained reporting period rather than a bounce in the road,” he said.

Specifically, Smith said he isn’t sure that the revenue numbers coming in from the state’s oil reserves are reflecting the overall decline in oil and gas production following the drop in prices.

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“We’ve got an upside in income but a potential downside in oil patch country,” Smith said. “I don’t mean to sound overly negative, I’m just cautious.”

Corporate tax projections questioned

To Gerry Bradley, a senior researcher and policy analyst with New Mexico Voices for Children, all of these variables in corporate tax revenue lead to “notoriously” unreliable projections.

Bradley is particularly critical of the lingering effects of a corporate tax cut deal passed at the end of the 2013 state legislative session. That deal, part of a larger tax package, dropped the state’s corporate income tax rate from 7.6 percent to 5.9 percent over five years.

Bradley recently put together a chart mapping out six different corporate income tax projections beginning in 2012, one year before the tax cut deal passed, and ending in December 2014.

Basing his numbers off of revenue projections from the LFC, the state Taxation and Revenue Department and the state Department of Finance and Administration, Bradley found the share of corporate tax revenue projections dropping more than 60 percent in that two-year period.

In December 2012, for example, corporate tax revenue was expected to jump \$260 million through fiscal year 2017. But by December 2014, corporate tax revenue for a similar five-year period was projected to increase just \$163 million comparatively.

Bradley told *New Mexico Political Report* that over the years, corporate income tax revenue projections have been uniformly dipping.

“Every time they’d come up with a set of estimates, they’d go down,” he said. “I’m worried about the trend, that the overall trend is down.”

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