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FY2020

General Fund Report

April 2020 Accruals

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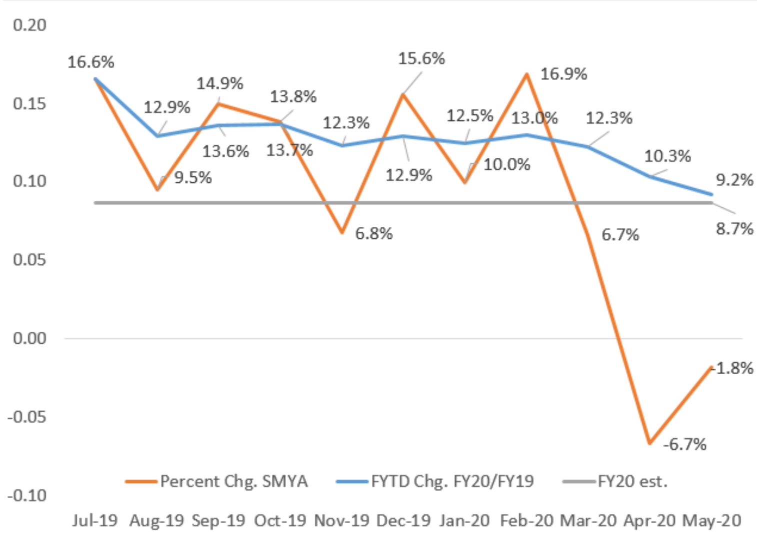
This report summarizes general fund revenues accrued through April 2020 during fiscal year 2020. The report also includes more recent data on oil and gas prices and volumes, New Mexico employment, and taxable gross receipts.

Highlights:

- The state of New Mexico collected $6.3 billion in total general fund recurring revenues from July 2019 through April 2020. This is a decline of $264.6 million or a 4% decline in fiscal year-to-date revenues through April 2020 (FYTD) compared to the same period last year. However, when accounting for a FY19 unprecedented federal land lease payment of $497 million, absent this payment, FY20 over FY19 total general fund revenues through April 2020 would have grown by 3.8% or $2 million.
- Total general fund collections for April 2020 were $556 million, a decrease of 10.3% when compared to the collections in April 2019 ($620 million).
- The Department of Finance's revenue tracking model which incorporates actual FYTD revenues through April, preliminary data for May, and estimated June revenues indicate FY20 revenues are tracking $360 million above the CREG's June revenue forecast. The tracking model's summary table is on page 11.
- Fiscal-year-to-date revenues that increased on a year-over-year basis were: gross receipts tax revenue increased by 8% or $181 million, and interest earnings increased by 7.5% or $57 million.
- The impact of the health care crisis can be seen in a decline of gross receipts tax revenue of $20 million or 8.2% in April 2020 when compared to the same month in 2019. In April 2020, gross receipts tax revenue was $223.6 million compared to $243 million in April 2019.

- Fiscal year-to-date total matched taxable gross receipts increased by 9.2% through May 2020 when compared to the same period in FY19. When comparing MTGR performance for April and May's to the same month one year prior, one can see the COVID-19 health crisis impact. MTGR declined 6.7% in April 2020 versus April 2019 and a decline of 1.8% when comparing May 2020 versus May 2019. See Chart 1 and Table 2 for details.

Chart 1. Total Matched Gross Receipts Tax Growth July 2019 Through May 2020 (FY20)



Source: Author's calculations, TRD RP-500 Report

- June 2020 non-farm employment decreased by 7.2% compared to June 2019. The sectors with the strongest year-over-year job losses were leisure and hospitality and mining declining by 24,900 jobs or -25.1% and 6,600 or -25.4, respectively
- The New Mexico unemployment rate decreased from 9.2% to 8.3% from May 2020 to June 2020. The national unemployment rate decreased from 11.1% in May to 10.2% in July 2020.

Table 1. General Fund Revenue Accruals								
	April 2019	April 2020	% Change Apr '19 to Apr '20	FY19 Through April	FY20 Through April	$ Difference from FY to FY to Date	FYTD % Change	June '20 Forecast Full Year Growth
Gross Receipts Tax	$243.6	$223.6	-8.2%	$2,261.2	$2,442.2	$181.0	8.0%	1.8%
Compensating Tax	$5.5	$4.7	-13.8%	$64.2	$54.0	($10.2)	-15.9%	-29.7%
Selective Sales Tax*	$83.9	$15.7	-81.3%	$451.5	$438.3	($13.2)	-2.9%	-7.1%
Personal Income Tax	$133.3	$138.6	4.0%	$1,245.9	$1,235.5	($10.4)	-0.8%	-9.5%
Corporate Income Tax	($13.8)	$10.6	-176.5%	$104.8	$31.0	($73.8)	-70.4%	-67.4%
Severance Taxes**	$4.5	$2.3	-48.0%	$415.6	$433.2	$17.6	4.2%	3.1%
Interest Earnings	$76.9	$80.8	5.1%	$773.7	$832.0	$58.4	7.5%	4.7%
Mineral Rents /Royalties***	$56.4	$70.3	24.5%	$1,154.2	$797.4	($356.8)	-30.9%	-31.6%
Other Revenues	**$29.5**	**$9.2**	**-68.7%**	**$141.0**	**$83.7**	**($57.3)**	**-40.7%**	**n/a**
Total Recurring Revenues	**$619.8**	**$555.9**	**-10.3%**	**$6,612.0**	**$6,347.3**	**($264.6)**	**-4.0%**	**-8.4%**
Total Recurring Revenue (Excluding Oil & Gas)	**$558.9**	**$483.3**	**-13.5%**	**$5,042.2**	**$5,116.8**	**$74.5**	**1.5%**	**-4.5%**

* Includes estimates for Insurance

** Includes estimates for Oil & Gas Emergency School Tax

***Mineral Rents and Royalties in FY19 includes an unprecedented federal land lease payment of $497 million

Table 1 above presents a summary of April 2020 and FY20 year-to-date revenue collections for the major categories of general fund appropriation account revenues. Preliminary general fund recurring revenues through April are approximately $6.6 billion, a decrease of $265 million, or a decline of 4 % from the same period in FY19. However, when accounting for a FY19 unprecedented federal land lease payment of $497 million, absent this payment, FY20 over FY19 total general fund revenues through April 2020 would have grown by 3.8% or $232 million.

It should be noted, as part of the June 2020 full-year forecast, the CREG's consensus on the average price of oil for New Mexico in FY20 is estimated at $42.50/barrel and $2.00/mcf for natural gas.

Gross Receipts Tax

Year-to-date matched taxable gross receipts through April increased by 9.2 %. This percentage change in taxable gross receipts, detailed in Table 2, represents the tax base for the gross receipt taxes. Revenue growth can diverge from tax base growth for several reasons, some of which may simply reflect the timing of payments, refund claims, etc. Year-over-year growth occurred in most industries. The overall growth in Table 2 illustrates the strength of the New Mexican economy from July 2019 through March 2020 when containment measures for COVID-19 were implemented.

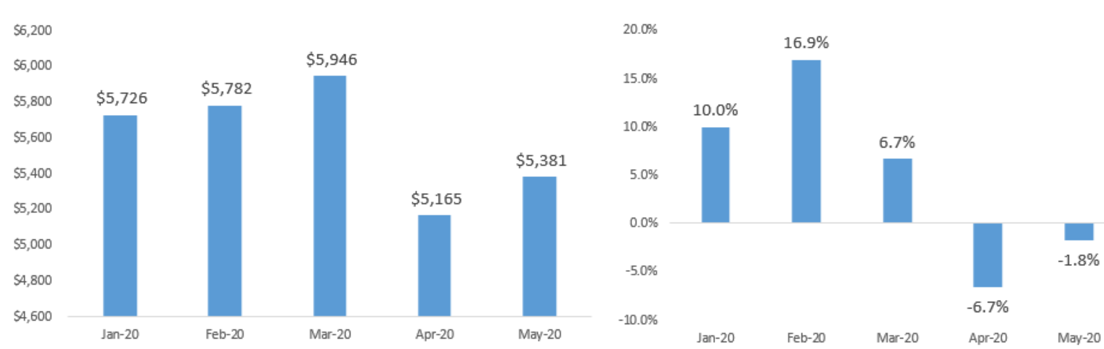
Table 2. FY20 Matched Taxable Gross Receipts by Sector Fiscal Year-to-Date through May 2020				
Sector		FYTD ($millions)	FYTD Percent Change	Percent of Total Growth
Agriculture, Forestry, Fishing and Hunting	$	115.65	4.8%	0.10%
Mining and Oil and Gas Extraction	$	6,276.90	2.8%	3.11%
Utilities	$	2,511.30	8.4%	3.58%
Construction	$	8,494.89	23.5%	29.70%
Manufacturing	$	1,842.21	0.8%	0.26%
Wholesale Trade	$	3,059.47	-1.0%	-0.58%
Retail Trade	$	13,861.40	11.1%	25.52%
Transportation and Warehousing	$	889.80	-5.9%	-1.03%
Information and Cultural Industries	$	2,718.88	15.5%	6.72%
Finance and Insurance	$	352.16	3.4%	0.21%
Real Estate and Rental and Leasing	$	1,671.31	7.7%	2.19%
Professional, Scientific and Technical Services	$	6,026.32	0.5%	0.50%
Management of Companies and Enterprises	$	37.75	23.6%	0.13%
Admin and Support, Waste Mgt and Remed	$	2,652.42	33.4%	12.22%
Educational Services	$	272.32	43.4%	1.52%
Health Care and Social Assistance	$	3,159.63	5.7%	3.14%
Arts, Entertainment and Recreation	$	282.33	-11.4%	-0.67%
Accommodation and Food Services	$	3,968.03	-7.6%	-5.97%
Other Services (except Public Admin)	$	5,317.94	19.8%	16.17%
Public Administration	$	218.66	16.0%	0.55%
Unclassified Establishments	$	781.86	22.3%	2.62%
All Industries	$	64,511.22	**9.2%**	**100%**
Excluding O&G	$	58,234.33	9.9%	n/a

Source: Author's calculations, TRD RP-500, (figures in milions)

The construction sector accounted for $8.5 billion in revenue collected and fiscal year-to-day (FYTD) growth of 23.5% compared to the prior fiscal year. The retail trade sector collected $13.9 billion and FYTD growth compared to the previous fiscal year was 11.1%. Lastly, the mining and oil and gas extraction sector collected $6.3 billion or 2.8% during the same period Total FYTD matched gross receipts through April 2020 were $64.5 billion, or a 9.2% increase from the prior year (see Table 2 for details).

Matched total gross receipts for April and May experienced declines on a year-over-year basis of 6.7% and 1.8%, respectively. The declines in April and May were expected to be more severe.

Chart 2. New Mexico MTGR (levels in millions) — **New Mexico MTGR (Y-o-Y Pct. Chg.)**



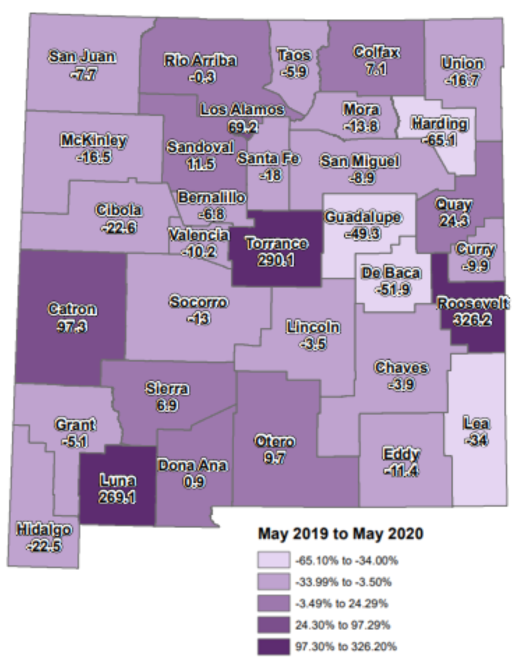
Source: Author's calculations, TRD RP-500 Report

Map 1 illustrates the year-over-year percentage changes of total matched gross receipts tax growth by counties in May. On a year-over-year basis, Dona Ana MTGR growth was relatively flat at 0.9%. While Bernalillo, Santa Fe, San Juan, Eddy, and Lea experienced declines of 6.8%, 18%, 7.7%, 11.4%, and 34%, respectively.

A few temporary construction projects were offsetting MTGR declines in May. This resulted in increases of MTGR, on a year-over-year basis for Roosevelt, Torrance, and Luna of 326%, 290%, and 269%, respectively.

Gross receipts tax revenue is derived from total matched taxable gross receipts.

Map 1. Total Matched Gross Receipts Tax Growth for May 2020 Y-o-Y



Source: Author's calculations, TRD RP-500 Report

The United States is going through an unprecedented time due to the COVID-19 health care crisis. The contagious nature of the virus resulted in New Mexico issuing a public health order implementing social distancing measures, closing non-essential businesses, limiting and reducing business capacity on March

19, 2020. The impact of the health care crisis can be seen in a decline of gross receipts tax revenue of $20 million or 8.2% in April 2020 when compared to the same month in 2019. However, fiscal year-to-date gross receipts tax revenues through April of $2.4 billion represent an 8% increase when compared to the same period in the prior fiscal year. See table 1 for details.

Additionally, the Department of Finance and Administration revenue tracking model estimates gross receipts tax revenue for FY20 is tracking at about $200 million above the CREG's June 2020 GRT forecast. This is due to fiscal and monetary policies implemented since March to bolster the national economy and have assisted in maintaining consumer spending. In particular, federal fiscal policies such as the paycheck protection program (PPP), The Federal Pandemic Unemployment Assistance program (PUA) and the Pandemic Emergency Unemployment Compensation (PEUC), and the $600 unemployment boost to unemployment benefits have played a significant role in dampening the healthcare crisis's negative impact on the national and state economies.

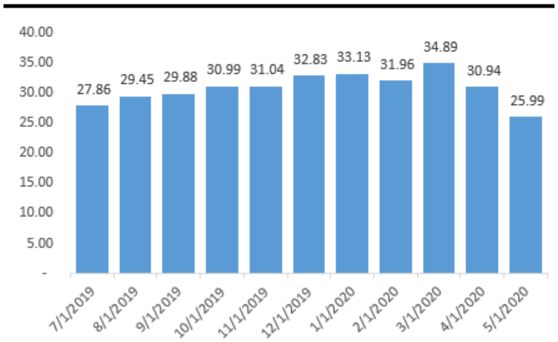
Severance Taxes/ Mineral Rents/Royalties

Severance tax revenue collected through April was $433.2 million, an increase of 4.2% when compared to the prior year. Mineral rents and royalties' revenue through April was $797.4 million, which represents a decline of 31% when compared to the FYTD revenue from the prior year. However, when accounting for FY19 unprecedented federal land lease payment of $497 million, mineral rents and royalties would have increased by $140.2 million or 21% through April 2020.

Severance tax revenues for the entire FY20 are forecasted to grow by 3.1%. The full-year forecast for mineral rents and royalties is expected to decline by 31.6%. This is due to the unprecedented federal mineral payment in FY19.

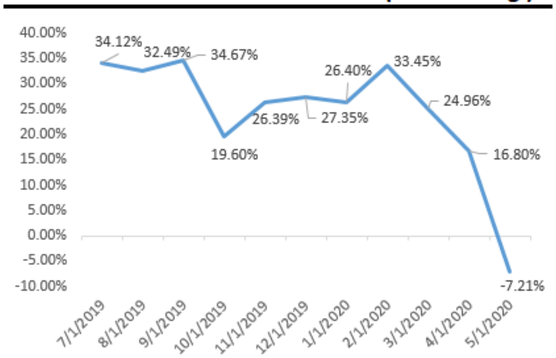
This positive growth in these two sectors is directly related to the increased oil production in the New Mexican part of the Permian Basin. New Mexico oil production experienced continued growth from July 2019 through March 2020. In the first half of 2020, the world oil market suffered from both supply and demand-side shocks from the Saudi Arabia and Russia oil price war and COVID-19 containment measures implemented in March. As oil prices collapsed, New Mexico rig counts declined and beginning in April, oil volumes began to decline.

Chart 3. New Mexico Oil Production



Source: NM TRD GenTax System, (levels in millions of barrels)

Chart 4. New Mexico Oil Production (YoY Pct. Chg.)



Source: NM TRD GenTax System

Personal Income Tax

Personal income tax revenues year-to-date through April were $1.23 billion, which represents a slight decrease of 0.8% from the prior fiscal-year-to-date revenues ($1.24 billion). Personal income tax revenues in April 2020 were $138.6 million, higher than the same month in the prior year which booked $133.3 million. The CREG's June forecast for FY20 expected a more severe decline in personal income tax revenue beginning in April. However, some of the same federal policies which assisted gross receipts tax revenues weather the first months of the health crisis are believed to have also given the personal income tax revenue robustness through the period with available data. Additionally, while the health crisis has impacted employment in most sectors in New Mexico, job losses have occurred disproportionately in low-wage sectors such as the leisure & hospitality sector.

The DFA revenue tracking model estimates personal income tax revenue for FY20 is tracking at about $85 million above the CREG's June 2020 GRT forecast.

Interest Earnings

Interest earnings year-to-date were $832 million representing a growth of 7.5% when compared to the same period in FY19. The June 2020 forecast for interest earnings estimated 4.7% growth for the full fiscal year.

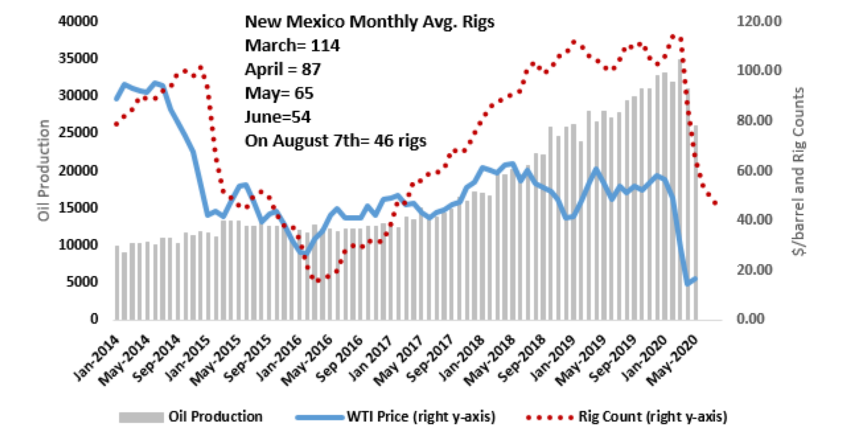
New Mexico Oil and Natural Gas Prices and Production

New Mexico oil prices in March, April, and May averaged $28.84/bbl., $14.40/bbl., and $16.83/bbl., respectively. These prices represent a significant decline when compared to prices during the same months in 2019 when New Mexico oil prices averaged $55.29/bbl., $60.76/bbl., and $55.20/bbl.

The collapse in oil prices in March were due to the loss of demand from the effects of the COVID-19 pandemic and the supply shock caused by the recent Saudi Arabia and Russia price war. Oil prices collapsed in mid-March, on April 20th, 2020 as the May futures contract expired, for the first time in history, oil prices collapsed to a negative $37.63 per bbl. The negative oil price collapse reflected weak oil demand and oversupply of oil on the market at the time. Traders sold off the May contracts at any price or shifted positions to June or farther down the calendar year regardless of any fees or penalties incurred. Once the May contract was done and the June contract became the up-front-month contract – oil prices bounced back into positive territory.

Chart 5 details the trends and the relationship between New Mexico's price of oil, oil production, and rig counts. New Mexico rig counts on August 7th declined to 46 active rigs. This represents a 60.6% loss in rigs since March. New Mexico still experienced high oil production months in January, February, and March with the state producing 33,132 Mbbls., 31,956 Mbbls., and 34,889 Mbbls., respectively. New Mexico oil production peaked in March at 34,889 Mbbls. when New Mexico's active rigs also peaked at 117. In April and May, New Mexico oil production has declined to 30,943 Mbbls. and 25,988 Mbbls., respectively.

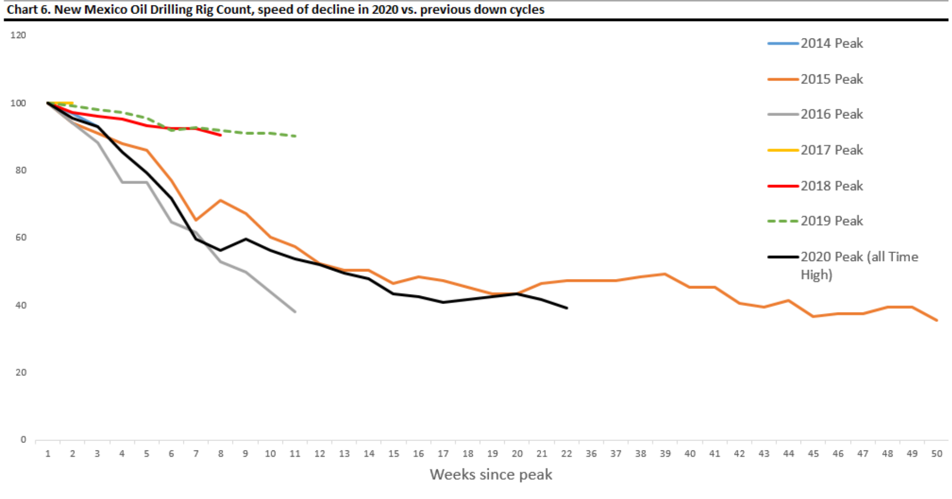
Chart 5. NM Oil Production (1000 barrels), NM Oil Price ($ per barrel), & NM Rig Count (number) January 2014 to August 2020



Source: Baker Hughes, TRD (Production through May. 2020, Price through May 2020, Rigs through August 7th, 2020)

Chart 6 illustrates the speed of the decline in rig counts in 2020 compared to previous down cycles. Notably, rig counts since March 2020 have declined faster than rig counts declined in 2015, briefly reaching the rate of decline observed in 2016. As of the date of the publication of this report, New Mexico rig counts have had a downward trajectory for 21 weeks since mid-March.

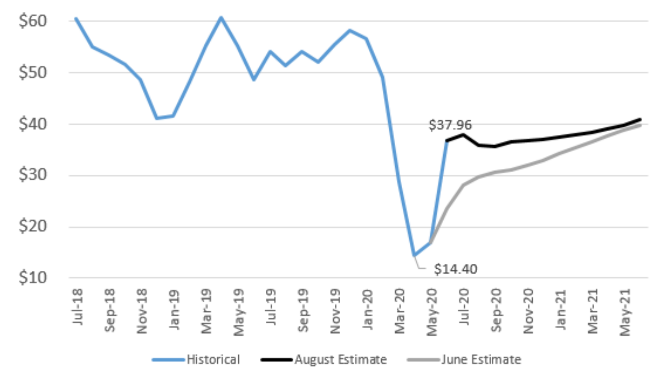
Chart 6. New Mexico Oil Drilling Rig Count, speed of decline in 2020 vs. previous down cycles



Source: Baker Hughes Rig Count Summary
Note: Peak week is week 1, All peak weeks indexed to 100

Recent optimism of the national and state economies reopening, slight up-ticks in oil demand around the world, and the recent OPEC+ output cuts in June have driven the oil price recovery. Chart 7 illustrates the DFA NM oil price estimate in August versus the June estimate. Most notably, is the difference in the near term, NM actual oil prices are tracking higher than the CREG's June consensus forecast. Additionally, an updated August price estimate using the most current Moody's Analytics July baseline forecast and the Energy Information Administration's (EIA) July Short Term Energy Outlook (STEO) estimates as inputs illustrate estimated NM oil prices slightly higher than the outlook in June (June estimate used May inputs). The contrast is most evident between the August and June estimates between July 2020 and the early part of 2021. Towards the end of the estimated period, the difference in the estimates narrows.

Chart 7. New Mexico's Monthly Oil Price July 2018 to May 2020, WTI Futures w/differential June 2020 to June 2021

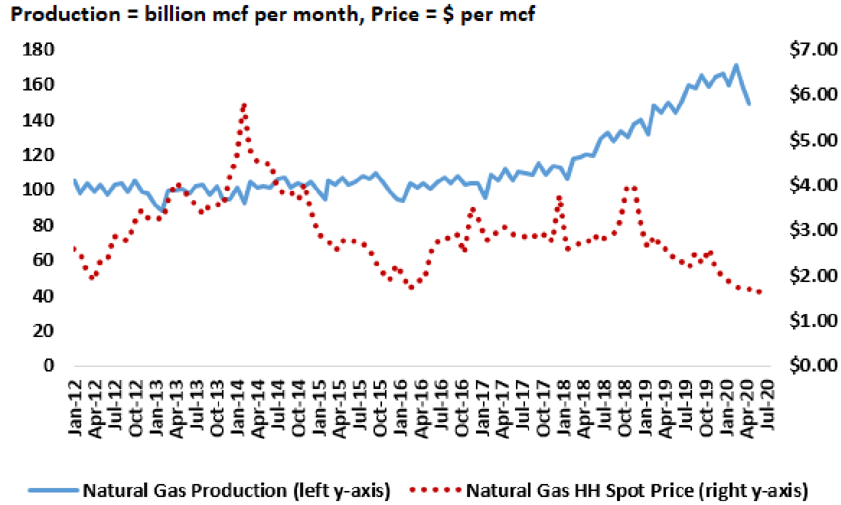


Source: TRD GenTax System, Weighted WTI derived from EIA, NYMEX, Phillips 66, and Moody's Forecasts

Natural gas production has a strong correlation with the energy industry's production of oil. Natural gas prices have remained low through 2019 and declined further in 2020. Chart 8 illustrates the downward trend of natural gas prices. The chart also illustrates as oil production increases or decreases; natural gas production follows suit.

Chart 8. New Mexico Marketed Natural Gas Prices and Production Jan. 2012 to Jul. 2020 (production through May 2020)

Production = billion mcf per month, Price = $ per mcf

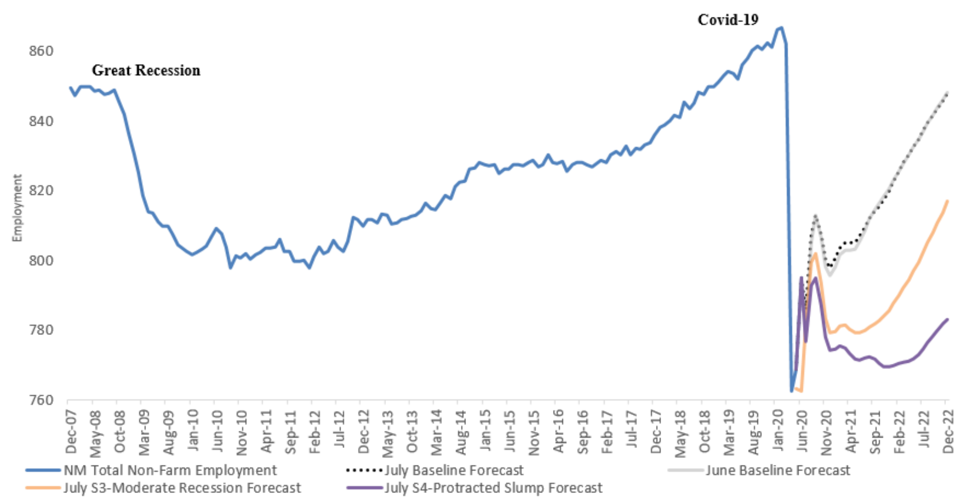


Source: EIA

Update on New Mexico Employment Trends

The Bureau of Labor Statistics Current Employment Statistics (CES) produces employment estimates by industry sectors for all states in the country. The CES estimates are subject to revision, however, they can be viewed as a leading indicator for labor market trends.

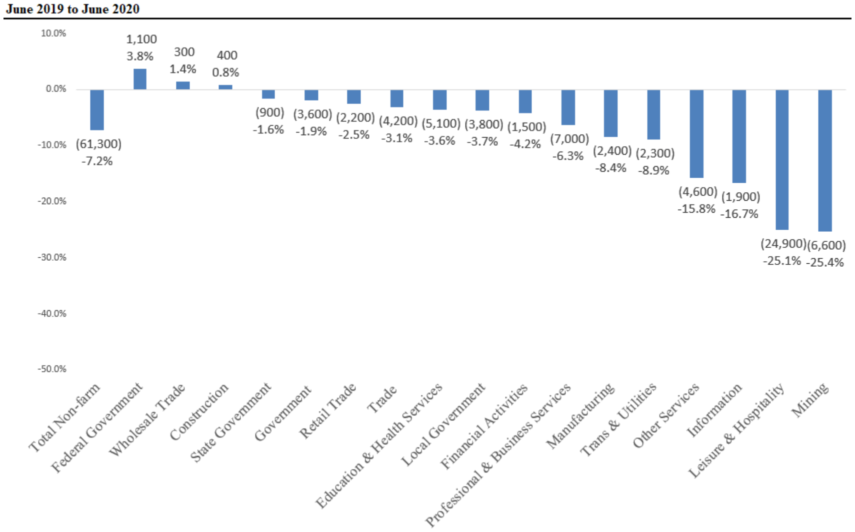
Chart 9. New Mexico's Monthly Total Non-Farm Employment by Forecast: Dec. 2007 to Dec. 2022



Source: Bureau of Labor Statistics, www.bls.gov. December 2007 to June 2020
Notes: Monthly Employment Figures from July 2020 to December 2022 are based on Moody's Analytics Scenarios

The United States continues to undergo an unprecedented time due to the COVID-19 virus. The contagious nature of the virus resulted in New Mexico issuing, revising, and expanding public health orders to implement social distancing measures, reopen the state's economy by limiting business and restaurant capacity to address the growing number of COVID-19 cases. The continuous effect of the COVID-19 health care crisis and recovery can be seen in the New Mexico employment data. Chart 9 illustrates the rapid pace at which the state incurred job losses with over 100 thousand jobs lost within three months. From February to April New Mexico lost just over 104 thousand jobs. From April to June, the state gained just over 32 thousand jobs. Employment recovery to pre-COVID-19 levels is expected to take several years under Moody's Analytics baseline and alternative scenario forecasts.

Chart 10. Percent Change and Level Change in Non-Farm Employment in New Mexico by Sector
June 2019 to June 2020



Source: bls.gov, CES seasonally adjusted

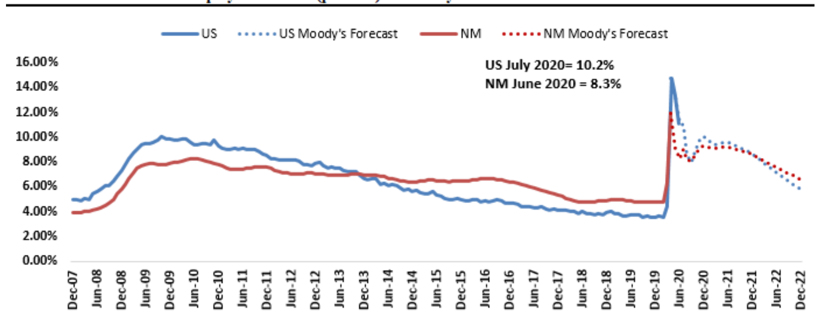
In June 2020, New Mexico's employment declined by 7.2%, or 61,300 jobs compared to June 2019 when adjusted for seasonal variation. The state's year-over-year employment declined across most sectors in June. The most severe employment losses were experienced by the mining sector followed by the leisure and hospitality sector, which lost 6,600 jobs and 24,900 jobs, respectfully, when compared to June

2019. This represents a 25.1% decline in employment in the leisure and hospitality sector and a 25.4% decrease in the mining sector. The other services sector declined by 15.8% or declined by 4,600 jobs on a year-over-year basis. The information sector lost 1,900 jobs, which represent a year-over-year decrease of 16.7%.

The following sectors experienced slight to moderate increases in employment growth from June 2019 to June 2020: federal government (3.8%), wholesale trade (1.4%), and construction (0.8%).

The New Mexico unemployment rate continued to decrease from 9.2% to 8.3% from May 2020 to June 2020. The national unemployment rate declined slightly down to 10.2% in July 2020. Moody Analytics' forecasted baseline model indicates New Mexico's unemployment rate does not fall below 7 % until October 2022.

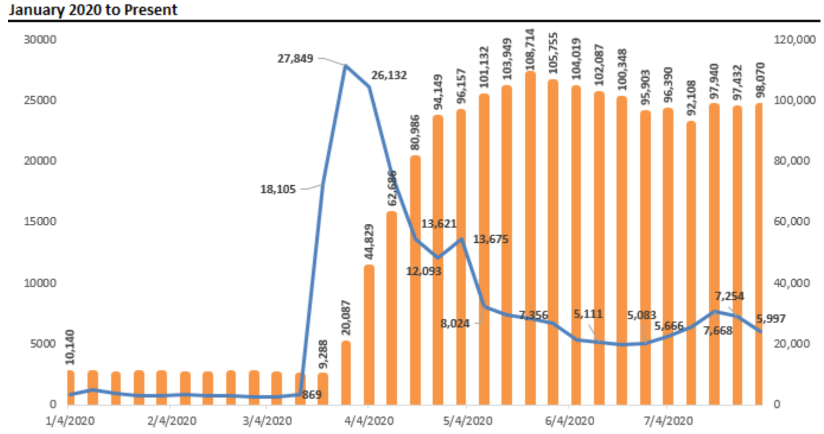
Chart 11. US and NM Unemployment Rate (percent) : January 2008 to June 2020



Source: bls.gov, seasonally adjusted

The COVID-19 virus caused an unprecedented restructuring of the nation and the state's economy. As states moved to halt economic activity to reduce the spread of the virus, the number of individuals utilizing federal and state unemployment benefits reached unparalleled levels.

Chart 12. New Mexico's Weekly UI Intial Claims vs. Continued Claims January 2020 to Present



Source: dol.gov, not seasonally adjusted, DWS NM

New Mexico's Department of Workforce Solutions (DWS) reports the number of initial and continued claims by several indicators. The federal government, through the CARES Act, created a new temporary program– Federal Pandemic Unemployment Assistance program (PUA) – which provides benefits to individuals who normally would not qualify for unemployment insurance benefits. Those receiving unemployment insurance benefits include those that were laid off or experiencing a reduction in hours.

New Mexico's unemployment insurance claims were relatively stable before the outbreak of the novel COVID-19 virus. Initial claims drastically increased in mid-March and peaked in early April and continue to fluctuate each week.

Table 3 illustrates that FY20 actual revenues through April, preliminary data in May, and estimated revenues in June based on historical patterns and shares. DFA tracking reporting illustrates FY20 revenues tracking about $360 million above the June 2020 CREG forecast. For estimated details on the general fund tracking model see the table below.

Table 3. Department of Finance & Administration Fiscal Year 2020 General Fund Revenue Tracking Summary Report				
(millions $)	FY20 Actual + Estimate	FY20 Forecast	% Difference to Forecast	Forecast Year-to-Date Variance
Gross Receipts Tax	2,906.1	2,708.3	7.3%	197.8
Compensating Tax	64.9	55.0	17.9%	9.9
Insurance Premiums Tax	241.6	206.1	17.2%	35.5
Motor Vehicle Excise Tax	133.2	118.8	12.1%	14.4
Other Selective Excise Taxes	191.3	179.5	6.6%	11.8
Personal Income Tax	1,561.5	1,476.4	5.8%	85.2
Corporate Income Tax	30.8	40.0	-22.9%	-9.2
O&G Emergency School Tax	389.1	388.7	0.1%	0.4
Other Mineral Taxes	48.3	48.5	-0.4%	-0.2
License Fees	41.4	39.2	5.7%	2.2
Land Grant Permanent Fund Distributions	672.3	673.0	-0.1%	-0.6
State Treasurer's Earnings	91.8	92.4	-0.7%	-0.6
Severance Tax Perm. Fund Distributions	225.3	225.3	0.0%	0.0
Federal Mineral Leasing	816.6	809.9	0.8%	6.7
State Land Office (Bonuses, Rents)	69.9	65.0	7.5%	4.9
Tribal Revenue Sharing	47.2	41.4	14.1%	5.8
Miscellaneous Revenues	39.6	40.2	-1.3%	-0.5
Reversions	91.7	91.7	0.0%	0.0
Recurring Total	7,662.6	7,299.2	5.0%	**363.4**
Nonrecurring	93.8	93.8	0.0%	0.0
Total	**7,756.5**	**7,393.1**	**4.9%**	**363.4**
Source: DFA, CREG, and historical monthly patterns				

A copy of this report can be found at
http://www.nmdfa.state.nm.us/New_Mexico_Economic_Summary.aspx