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FY2019

General Fund Monthly Report

December 2018 Accruals

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This report summarizes General Fund revenues accrued through December 2018 during the fiscal year 2019. The report also includes more recent data on oil and gas prices and volumes, New Mexico employment, and taxable gross receipts.

Highlights:

- General Fund total recurring revenue in December 2018 was flat compared to recurring revenue in December 2017. General Fund total recurring revenue FYTD through December 2018 in FY19 increased 14 percent compared to recurring revenue through December 2017 in FY18.
- Growth has increased among the State's most broad-based revenue sources. Compared to the same period in FY18. The following revenue sources have experienced growth: general sales tax, severance taxes, and mineral rents and royalties. General sales and mineral production tax revenues have increased by 17.2 percent and 56.6 percent respectively.
- Mineral rents and royalties revenues received a large one-time payment (\$492 million) from federal land lease sales. Adjusting the revenue for this one-time payment, Mineral rents and royalties have grown by 32 percent compared to the previous year.
- The increase in revenue reflects the increase in oil production led by Permian basin expansion and increased pipeline capacity.
- Fiscal year-to-date total taxable gross receipts increased 13.6 percent through December compared to the prior year. The greatest contributors to the increase were professional services and mining. Retail and construction, the two largest sectors, also contributed to the growth.

- March non-farm employment increased 1.2 percent compared to the same month from the prior year. The sectors with the strongest year over year job growth were Mining (10.4), Construction (4.2), and Professional Business Services (2.4). Wholesale Trade and Information sector both saw year over year employment declines of 3.8 percent and 4.2 percent respectively.
- In March 2019, the New Mexico unemployment rate remained unchanged at 5.1 percent while the national unemployment rate was 3.8 percent.

Table 1. General Fund Revenue Accruals

	December 2017	December 2018	% Change Dec '17 to Dec '18	FY18 Through December	FY19 Through December	\$ Difference from FY to FY to Date	FYTD % Change	Dec '18 Forecast Full Year Growth
General Sales Tax	\$201,995,181	\$249,373,085	23%	\$1,181,191,615	\$1,384,499,951	\$203,308,335	17.2%	8.8%
Selective Sales Tax ₁	\$37,761,160	\$23,682,563	-37%	\$312,044,046	\$231,786,856	(\$80,257,190)	-25.7%	5.2%
Personal Income Tax	\$199,072,511	\$73,276,708	-63%	\$742,751,241	\$691,586,076	(\$51,165,165)	-6.9%	3.0%
Corporate Income Tax	(\$10,997,401)	\$29,540,673	369%	\$10,143,340	\$94,382,000	\$84,238,661	830.5%	3.2%
Severance Taxes ₂	\$38,811,792	\$46,996,451	21%	\$200,838,226	\$314,602,100	\$113,763,874	56.6%	-14.4%
Interest Earnings	\$66,947,044	\$84,096,899	26%	\$398,679,454	\$457,716,731	\$59,037,276	14.8%	10.3%
Mineral Rents /Royalties ₃	\$39,258,730	\$63,980,299	63%	\$297,989,811	\$890,363,812	\$592,374,002	198.8%	29.8%
Total Recurring Revenues₄	\$572,849,018	\$570,946,677	0%	\$3,143,637,734	\$4,064,937,526	\$921,299,792	29.3%	7.9%
Total Recurring Revenue (Excluding Oil & Gas)	\$494,778,495	\$459,969,928	-7%	\$2,644,809,697	\$2,859,971,614	\$215,161,917	8.1%	6.6%

Source: DFA Financial Control Division

1. Includes estimates for Insurance

2. Oil and Gas School Tax Revenue in excess of the five-year average is transferred to the tax stabilization reserve fund beginning in FY19.

Because of this transfer, Severance taxes forecast estimates a decline. However, once adjusted for this, Severance Taxes forecasted percent change is 10.4%.

Budget estimates for full FY take this transfer into account. FY19 Transfer from Oil & Gas School Tax To Tax Stabilization Reserve is \$122.6 million

3. Mineral Rents and Royalties in FY19 includes a federal land lease payment of \$492 million. This payment was a one time event and increased the percent change to 198.8%.

Adjusting for this windfall payment, Mineral Rents and Royalties has a fiscal year to date percent change of 32%

4. Once Total Recurring Revenues are adjusted for the one time federal land lease payment, revenues are 14% higher when compared to one year prior.

Table 1 above presents a summary of December 2018 and FY19 year-to-date revenue collections for major categories of General Fund Appropriation Account revenues. Preliminary General Fund recurring revenues through December 2018 are approximately \$4 billion, an increase of \$921 million or 29.3 percent increase from the same time period in FY18, well above the December 2018's forecasted full-year growth of 7.9 percent. However, once total recurring revenues are adjusted for the one-time federal land lease payment, total FYTD recurring revenues are 14% higher when compared to one year prior.

General Sales Tax

Compared to the same period one year ago, general sales taxes fiscal year-to-date increased 17.2 percent. General sales taxes outperformed the forecasted estimate for the full fiscal year of 8.8 percent. This percent 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 a number of reasons, some of which may simply reflect the timing of payments, refund claims, etc. Year over year growth occurred in most industries. With the Mining and Oil and Gas Extraction (62.3%) leading the way. Transportation and warehousing increased by 40.7 percent and Administration and Support and Waste Management also increased by 35 percent during the same time period. For additional detail on total gross receipt performance, please refer to Table 2 on page 7.

Severance Taxes/ Mineral Rents/Royalties

Mineral production taxes, and mineral rents and royalties increased by 56.6 percent and 198.8 percent respectively, when compared to the fiscal year-to-date from the prior year. Mineral production taxes fiscal year-to-date growth is well ahead of the adjusted 10.4 percent forecast. Mineral rents and royalties revenue fiscal year-to-date revenue is also tracking ahead of the

adjusted 32 percent full-year forecast. The strong positive growth in these two sectors is a direct reflection of the increased oil production in the Permian basin in the last two years. The increase in revenue is also attributable to the strong energy prices observed during the same time period. With New Mexico experiencing record high rig counts and additional pipeline capacity coming online in the Permian region, production is expected to continue to grow in the near future. The mineral rents and royalties revenues percent change must be adjusted due to a large one-time payment (\$492 million) from federal land lease sales. Adjusting the revenue for this one-time payment, mineral rents and royalties have grown by 32 percent compared to the previous year.

Selective Sales Tax

Selective sales tax growth experienced a decline of 25.7 percent over the first six months of the fiscal year compared to the same time period one year ago. This decline was led by a decline in the Insurance category, which declined by 53 percent. The full-year forecast projects a full fiscal year growth of 5.2 percent.

Personal Income Tax

Personal income tax revenues year-to-date through December decreased 6.9 percent from the prior year. The full-year forecast for personal income tax calls for a 3 percent growth for the full fiscal year. However, accounting changes at the Taxation and Revenue Department (TRD) have distorted the data in December. Taxation and Revenue Department staff is currently working to solve the accounting and reporting discrepancies.

Corporate Income Tax

Corporate income tax (CIT) revenues year-to-date have experienced a substantial increase of 830.5 percent. However, the CIT percentage change can vary broadly due to a variation in the timing CIT payments which do not follow a regular schedule. The full-year forecast for corporate income tax estimates 3.2 percent growth for the full fiscal year

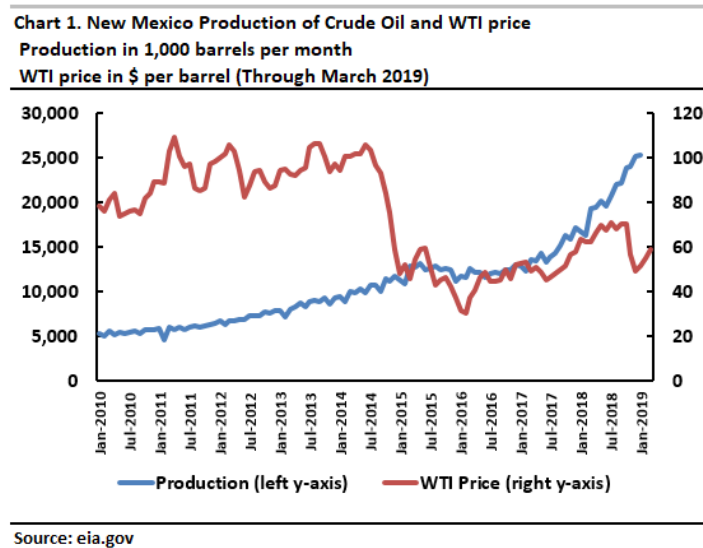
Interest Earnings

Interest earnings year-to-date growth increased 15 percent when compared to the same time period in FY18. The December forecast for interest earnings estimated a 10.3 percent growth for the full fiscal year, this revenue stream tracking well ahead of this estimate. This is a result of a higher percentage of assets in general fund liquidity while interest rates were increasing. Meaning the increase is a result of higher interest rates and the State Treasures Office (STO) managing larger balances. The balances at State Treasures Office have increased from \$4 billion in February 2018 to \$6.1 billion in February 2019.

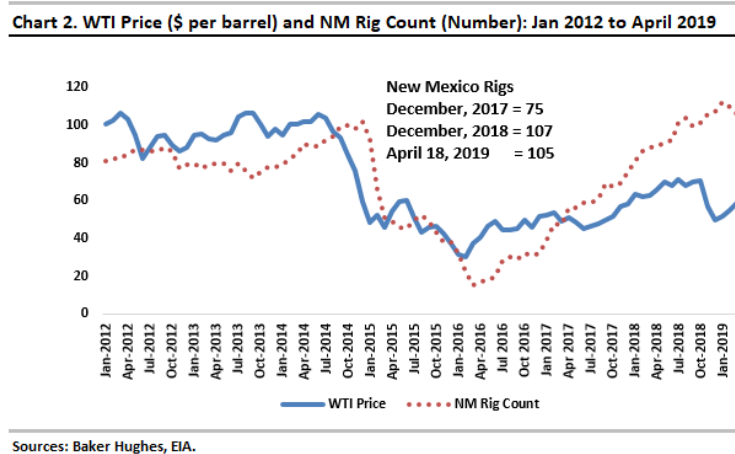
New Mexico Oil and Natural Gas Prices and Production

New Mexico oil prices for December 2018 averaged \$41.32 per barrel (bbl.), which compares to \$54.27 per bbl. for December 2017. In December 2018 the benchmark WTI price of oil averaged \$50 per bbl. New Mexico field production of crude oil increased by 46 percent from December 2017 to December 2018. Chart 1 details New Mexico oil production substantially increasing

starting in mid-2016 through present day. WTI prices have increased during this time period as well, slightly dipping in December and then stabilizing through the first quarter of 2019.

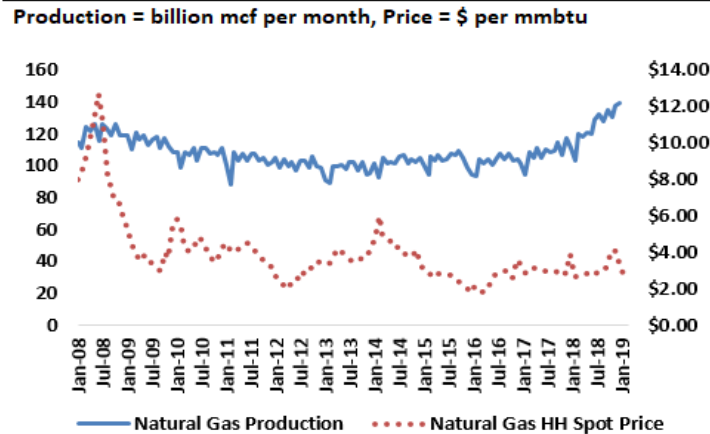


The New Mexico rig count in December of 2018 was 107 compared to 75 one year prior. According to Baker-Hughes data as of April 18, 2019, New Mexico had 105 active rigs. Chart 2 illustrates the trend of New Mexico rigs versus the WTI price from 2012 through March 2019.



The Henry Hub natural gas spot price for December 2018 was \$2.69 per MMBtu, which compares to \$2.67 per MMBtu in December 2017. Natural gas prices have remained low and flat during the time period considered. New Mexico has vast amounts of natural gas in proved reserves. Natural gas production has increased as the energy industry increases its oil production. Additional pipeline capacity in the Permian Basin and an oversupply is expected to keep natural gas prices low into the near future.

**Chart 3. New Mexico Marketed Natural Gas (billion cf):
Jan 08 to Jan 2019**



Source: eia.gov

Update on New Mexico Employment Trends

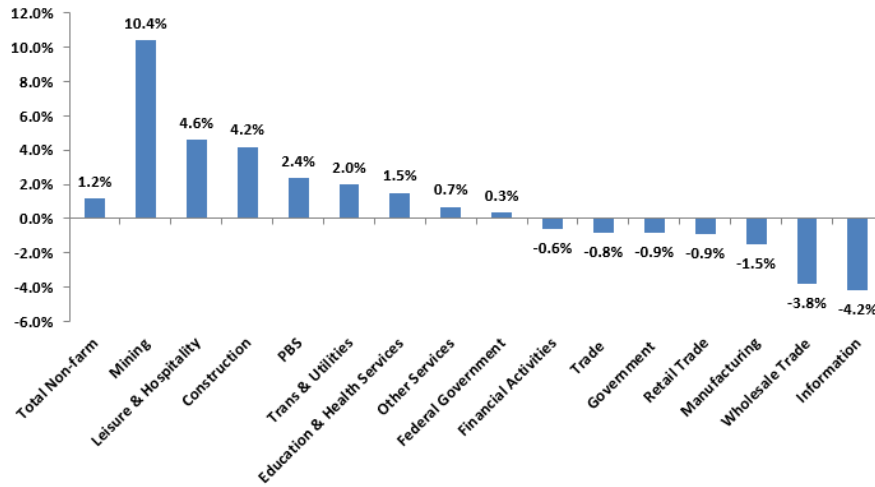
In March 2019 New Mexico employment grew by 1.2 percent, or 9,900 jobs, from the prior year (March 2018) when adjusted for seasonal variation. As of the month of March, the New Mexico labor market recovered the more than 50,000 jobs lost because of the Great Recession. During March, the state added a net gain of 1,200 new jobs, bringing total employment to 850.7 thousand jobs.

Employment grew across several sectors in March. Economic growth in the state was led by the Mining sector, which experienced 10.4 percent year over year growth in employment. This was followed by the Leisure & Hospitality sector in which employment grew by 4.6 percent compared to the same month one year ago. The Construction sector performed well, with employment growth of 4.2 percent during the same time period. Lastly, during the same time period, Professional and business services experienced growth of 2,500 jobs or 2.4 percent growth and Education & Health Services added 2,100 jobs or 1.5 percent growth.

The following sectors experienced slight to moderate declines in employment growth from March 2018 to March 2019: Manufacturing, Trade, Information, Financial Activities, Government, and Other Services. Within the government sectors (Local, State, and Federal), State government lost 1,600 jobs from March 2018 to March 2019. The Local and Federal government sectors both lost 100 jobs each, during the same time period. Please see Chart 4 for details.

The unemployment rate in the state did not change in March compared to one year prior. The state unemployment rate remains at 5.1 percent, while the national unemployment rate for March was 3.8 percent.

**Chart 4. Percent Change in Non-farm Employment in New Mexico by Sector
March 2018 to March 2019**



Source: bls.gov

New Mexico Matched Taxable Gross Receipts (TGR), FY19 Year-to-Date through December 2018

Taxable gross receipts year-to-date growth was led by the mining and oil and gas Extraction sector which grew by 62.3 percent from the previous year. Additionally, this sector accounts for a greater magnitude of the total year over year growth, accounting for 33 percent of the total growth in taxable gross receipts for the state. See Table 2 for details.

The second largest sector, construction, experienced both taxable gross receipts growth of 10.2 percent and a slight increase in year over year employment growth of 2.5 percent. Manufacturing, wholesale trade, and transportation and warehousing sectors all experienced positive year-to-date growth, when compared to the previous year, each experienced a percent change of 26.6 percent, 33.5 percent, 40.7 percent respectively

Taxable gross receipts grew by 13.6 percent in FY19 year-to-date through December. Retail, which is the largest sector and represents nearly a quarter of all taxable gross receipts, increased by 4.7 percent from the prior year, suggesting that consumers are more willing to spend disposable income as the economy expands.

Table 2. FY19 Taxable Gross Receipts by Sector			
Year-to-Date through December 2018			
Sector	YTD (\$millions)	YTD Percent Change	Percent of Total Growth
Agriculture, Forestry, Fishing and Hunting	\$ 69.8	12.0%	0.19%
Mining and Oil and Gas Extraction	\$ 3,360.6	62.3%	33.25%
Utilities	\$ 1,265.3	1.3%	0.43%
Construction	\$ 3,811.9	3.8%	3.61%
Manufacturing	\$ 989.1	26.6%	5.36%
Wholesale Trade	\$ 1,645.8	33.5%	10.65%
Retail Trade	\$ 6,974.0	4.7%	8.01%
Transportation and Warehousing	\$ 528.7	40.7%	3.94%
Information and Cultural Industries	\$ 1,269.4	-0.9%	-0.31%
Finance and Insurance	\$ 190.6	-1.0%	-0.05%
Real Estate and Rental and Leasing	\$ 855.9	18.7%	3.48%
Professional, Scientific and Technical Services	\$ 3,475.9	12.5%	9.94%
Management of Companies and Enterprises	\$ 15.8	0.6%	0.00%
Admin and Support, Waste Mgt and Remed	\$ 829.5	34.9%	5.53%
Educational Services	\$ 101.7	-2.8%	-0.08%
Health Care and Social Assistance	\$ 1,607.3	8.3%	3.18%
Arts, Entertainment and Recreation	\$ 165.3	6.3%	0.25%
Accommodation and Food Services	\$ 2,302.6	6.3%	3.50%
Other Services (except Public Admin)	\$ 2,431.8	8.4%	4.86%
Public Administration	\$ 91.7	1.9%	0.04%
Unclassified Establishments	\$ 354.8	85.1%	4.21%
All Industries	\$32,337.3	13.6%	100%
Excluding O&G	\$ 28,976.7	9.8%	n/a

A copy of this report can be found at
[http://www.nmdfa.state.nm.us/New Mexico Economic Summary.aspx](http://www.nmdfa.state.nm.us/New_Mexico_Economic_Summary.aspx)