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FY2021
General Fund Report
January 2021 Accruals

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This report summarizes general fund revenues accrued through January 2021 during fiscal year 2021 (FY21). The report also includes more recent data on oil and gas prices and production, New Mexico employment, and taxable gross receipts.

Highlights:

- The state of New Mexico collected \$4.2 billion in total general fund recurring revenues from July 2020 through January 2021. This is a decline of \$261 million or a 5.8% decline in fiscal year-to-date revenues through January 2021 (FYTD) when compared to the same period last year.
- Total general fund collections for January 2021 were \$455.4 million, a decrease of 27.1% when compared to the collections in January 2020 (\$611.3 million).
- Fiscal-year-to-date revenues that increased on a year-over-year basis were: personal income tax revenue increased by 7.7% or \$64.4 million.
- In January 2021, gross receipts tax revenue was \$234.6 million compared to \$244.5 million in January 2020. This is a decline of \$10.3 million or 4.2% in January 2021 when compared to the same month in 2020.
- On a year-over-year basis, New Mexico's January employment was down 7.7% or 65,600 jobs. In 2021, the New Mexico's March unemployment rate was unchanged from February at 8.3%.
- The Department of Finance's revenue tracking model which incorporates actual FYTD revenues through January, preliminary data for February, and estimates for the rest of the fiscal year, indicates revenues are tracking \$111.8 million above the February consensus revenue forecast. The tracking model's summary table is on page 8.

	January 2020	January 2021	% Change Jan. '20 to Jan. '21	FY20 Through January	FY21 Through January	\$ Difference from FY to FY to Date	FYTD % Change	February '21 Forecast Full Year Growth
Gross Receipts Tax	\$244.5	\$234.2	-4.2%	\$1,714.0	\$1,582.3	(\$131.7)	-7.7%	-14.3%
Compensating Tax	\$6.2	\$3.3	-47.8%	\$44.6	\$32.4	(\$12.2)	-27.3%	-14.5%
Selective Sales Tax*	\$79.6	\$24.7	-69.0%	\$318.9	\$289.3	(\$29.7)	-9.3%	-6.1%
Personal Income Tax	\$48.1	(\$59.2)	-223.1%	\$832.7	\$897.1	\$64.4	7.7%	-6.2%
Corporate Income Tax	\$1.6	(\$1.7)	-206.3%	(\$18.2)	\$65.3	\$83.6	-458.1%	-18.7%
Severance Taxes**	\$64.8	\$69.9	7.9%	\$422.7	\$365.2	(\$57.5)	-13.6%	5.9%
License Fees	\$0.3	\$0.3	-3.1%	\$5.5	\$2.7	(\$2.8)	-51.3%	n/a
Interest Earnings	\$88.0	\$79.3	-9.9%	\$568.7	\$565.1	(\$3.6)	-0.6%	-0.6%
Mineral Rents /Royalties	\$77.3	\$68.7	-11.1%	\$566.1	\$381.2	(\$185.0)	-32.7%	-10.0%
Tribal Revenue Sharing	\$0.0	\$6.8	n/a	\$13.6	\$15.5	\$1.9	13.6%	18.4%
Miscellaneous Receipts	\$0.8	\$18.8	2367.5%	\$24.8	\$23.8	(\$1.0)	-4.1%	11.5%
Reversions	\$0.1	\$0.3	399.2%	\$2.7	\$15.0	\$12.2	444.7%	-38.3%
Total Recurring Revenues	\$611.3	\$445.4	-27.1%	\$4,496.0	\$4,234.8	(\$261.2)	-5.8%	-8.5%

* Includes estimates for Insurance
** Includes estimates for Oil & Gas Emergency School Tax

Table 1 presents a summary of January 2021 and FY21 year-to-date revenue collections for the major categories of general fund appropriation account revenues. Preliminary general fund recurring revenues through January are approximately \$4.2 billion, a decrease of \$261 million, or a decline of 5.8% from the same period in FY20.

Gross Receipts Tax

Year-to-date matched taxable gross receipts through February decreased by 9.5%. 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 declines occurred in most industries. Total fiscal year-to-date matched taxable gross receipts are down 9.5% when compared to the prior fiscal year. The majority of the percentage decline is attributed to the decline in the mining and, oil and gas extraction gross receipts. Table 2 illustrates the sensitivity of the New Mexican economy to changes in the mining, and oil and gas extraction sectors. Mining, and oil and gas extraction fiscal year-to-date taxable gross receipts accounted for \$2.8 billion through February 2021 and are down 41.7% when compared to the same period in FY20.

Sector	FYTD	FYTD	Percent of Total Growth
	(\$millions)	Percent Change	
Agriculture, Forestry, Fishing and Hunting	\$ 90.60	3.6%	-0.07%
Mining and Oil and Gas Extraction	\$ 2,799.32	-41.7%	43.77%
Utilities	\$ 1,984.75	4.1%	-1.71%
Construction	\$ 5,445.06	-9.4%	12.27%
Manufacturing	\$ 1,216.75	-11.4%	3.41%
Wholesale Trade	\$ 1,775.08	-24.5%	12.57%
Retail Trade	\$ 10,591.09	4.4%	-9.79%
Transportation and Warehousing	\$ 480.60	-26.8%	3.85%
Information and Cultural Industries	\$ 1,303.51	-33.8%	14.52%
Finance and Insurance	\$ 284.19	8.7%	-0.50%
Real Estate and Rental and Leasing	\$ 1,102.09	-13.4%	3.72%
Professional, Scientific and Technical Services	\$ 4,369.34	-1.2%	1.16%
Management of Companies and Enterprises	\$ 25.23	-10.6%	0.07%
Admin and Support, Waste Mgt and Remed	\$ 2,247.77	12.6%	-5.50%
Educational Services	\$ 199.49	-3.2%	0.14%
Health Care and Social Assistance	\$ 2,555.52	9.7%	-4.94%
Arts, Entertainment and Recreation	\$ 120.31	-50.8%	2.71%
Accommodation and Food Services	\$ 2,523.40	-19.9%	13.65%
Other Services (except Public Admin)	\$ 3,458.16	-15.2%	13.51%
Public Administration	\$ 169.18	2.1%	-0.08%
Unclassified Establishments	\$ 695.93	22.1%	-2.74%
All Industries	\$ 43,437.38	-9.5%	100%
Excluding O&G	\$ 40,638.05	-6.0%	n/a

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

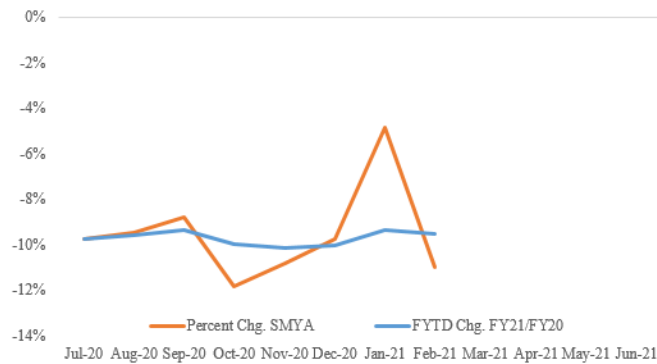
The construction sector, the second largest sector behind the retail sector, accounted for \$5.4 billion in revenue collected through February and fiscal year-to-date (FYTD) decline of 9.4%

compared to the prior fiscal year.

The retail trade sector, the largest contributing sector to gross receipts revenues collected \$10.6 billion and had FYTD growth compared to the previous fiscal year of 4.4%.

Lastly, on a year-over-year basis, matched total gross receipts from July 2020 through February 2021 have been consistently down 10% as seen in chart 1.

Chart 1. Matched Total Gross Receipts Tax Growth: July 2020 Through February 2021 (FY21)



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

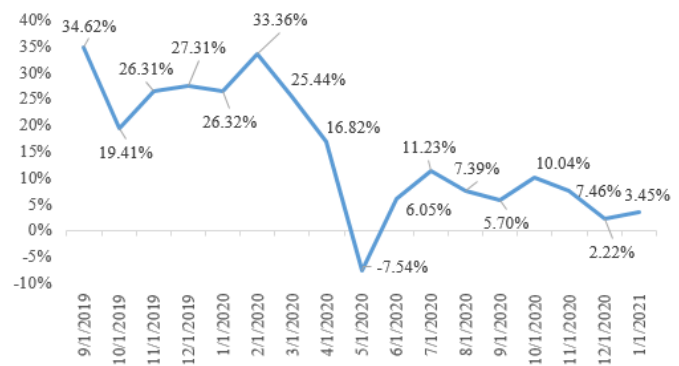
Severance Taxes/ Mineral Rents/Royalties

Severance tax revenue collected through January was \$365.2 million, an increase of 13.6% when compared to the prior year. Mineral rents and royalties' revenue through January was \$381.2 million, which represents a decline of 32.7% when compared to the FYTD revenue from the prior year.

Severance tax revenues for the entire FY21 are forecasted to grow by 5.9%. The full-year forecast for mineral rents and royalties is expected to decline by 10%.

The growth rates in these two revenue programs are directly related to the oil price volatility and oil production in the New Mexican region of the Permian Basin. New Mexico oil production experienced 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 Arabian and Russian oil price war and COVID-19 containment measures implemented in March 2020. As oil prices collapsed, New Mexico rig counts declined, and beginning in April, oil volumes began to decline (see chart 2).

Chart 2. New Mexico Oil Production (YoY Pct. Chg.)



Source: Author's calculations, NM TRD GenTax System

Personal Income Tax

Personal income tax revenues year-to-date through January were \$897 million, which represents an increase of 7.7% from the prior fiscal-year-to-date revenues (\$832.7 million). Prior estimates expected more severe declines in personal income tax revenues, however, this revenue stream has consistently performed slightly better than the estimates for FY21. It is also worth noting that due to a delay in the opening of the tax season, the volume of personal income tax returns normally filed in January were filed in February. This led to the condensing of two months of tax returns being processed in one month and subsequently a large number of refunds being issued in February. The income tax revenue activity in February accrues to January and an abnormally high refund amount meant a negative general fund number for personal income tax in January 2021.

The February consensus forecast for FY21 expects personal income tax revenues to decline by 6.2%.

Interest Earnings

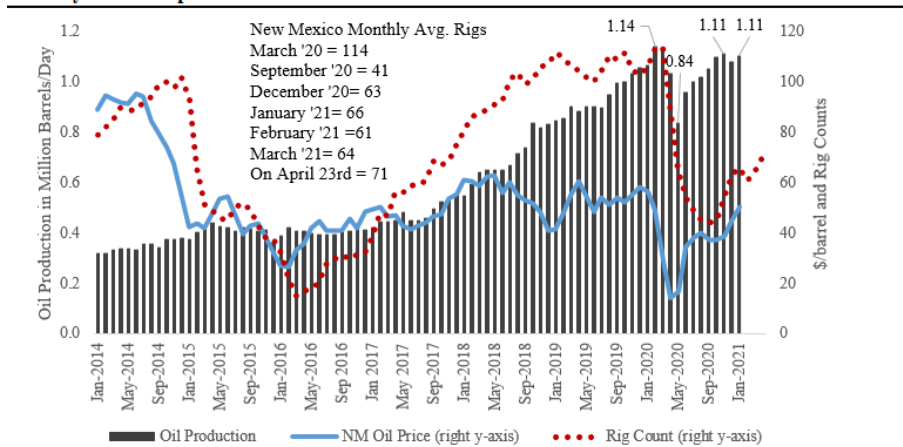
Interest earnings year-to-date were \$565 million representing only a minor decline of 0.6% when compared to the same period in FY20. This is on par with the February 2021 forecast for interest earnings, which estimated a slight decline of 0.6% for the full fiscal year.

New Mexico Oil and Natural Gas Prices and Production

New Mexico oil prices in December 2020 and January 2021 averaged \$44.60/bbl. and \$50.36/bbl., respectively. January marks the first month in which New Mexico oil prices are above \$50/bbl. since the pandemic began. This represents an oil price recovery from the low of \$14.40/bbl. in April 2020. In January, New Mexico oil production reached 1.11 mbbbls./day with a monthly average rig count of 66.

Chart 3 illustrates New Mexico oil prices, production, and rig counts. Since the pandemic began, New Mexico production experienced a slowdown in production in May 2020 due to the halting of completion crews due to the COVID-19 pandemic. Once completions crews returned, production resumed with producers focusing on drawing down their inventory of completions. Producers have also focused on completing their best-

Chart 3. NM Oil Production (mbbls./day), NM Oil Price (\$ per barrel), & NM Rig Count (number) January 2014 to April 2021



Source: Baker Hughes, TRD (Production and price through January 2021, Rigs through April 2021)

producing wells. It is worth noting that completions have been outpacing frac jobs since the latter half of 2020.

Producers focusing on high producing wells, drawing down completion inventory, firming oil demand, and a stronger oil price recovery has assisted in New Mexico oil production returning to pre-COVID-19 levels despite lower rig counts.

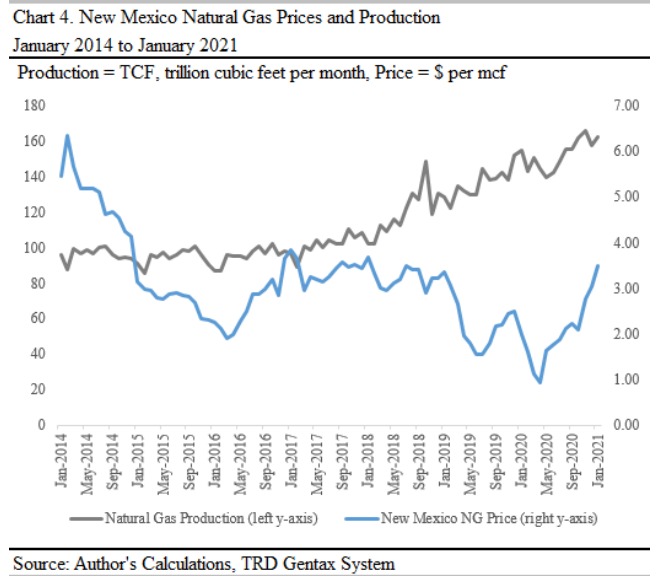
While February data is not complete and available yet, a low production month is expected due to the severe winter storm that impacted the Permian Basin during the middle of the month. The severe weather is expected to have slowed and halted frac jobs and completions temporarily.

Additionally, in Fiscal Year 2021, the State has also been influenced by two federal executive orders impacting the oil and natural gas industry. The federal government issued two orders impacting oil and gas development in the second half of January. The “Executive Order on Tackling the Climate Crisis at Home and Abroad” pauses new federal land leases but does not directly impact existing leases nor does it impact existing or pending permits. This executive order does not have an end date. The Secretarial Order 3395 issued a 60-day pause on administrative authority from Bureau of Land Management (“BLM”) field staff to approve: leases, rights of way, surface disturbances, and permits to drill. This order expired on March 21, 2021, and the U.S. Department of Interior stated that BLM officials would process applications for permits.

The expectation is that the current federal executive order, in and of itself, should have minimal impact on New Mexico oil production over the next 8 to 12 months, especially if some gray area items are clarified for operators. This is due to the amount of acreage already leased by producers, producers’ stockpile of permits, and the well economics that make the Permian Basin attractive for producers.

In New Mexico, natural gas production has a strong correlation with the energy industry’s production of oil. This associated natural gas production means that as oil production increases or decreases; natural gas production follows suit. Natural gas prices also have a strong correlation with seasonal weather patterns. Typically during a harsher winter, natural gas prices increase.

Natural gas prices were impacted by a slightly longer winter and the severe winter storm that impacted Permian Basin in mid-February. New Mexico natural gas price averaged \$3.48/mcf in January 2021, up from the summer prices of \$2.12/mcf and \$2.22/mcf in August 2020 and September 2020 respectively. The higher natural gas prices of January and February are not expected to continue into the spring and summer of 2021.



February’s consensus forecast estimates that in Fiscal Year 2021, New Mexico oil prices will average \$43.50/bbl., while natural gas prices are projected to average \$2.45/mcf. New Mexico oil production is expected to average 370 million barrels, while natural gas production is expected to average 1,830 billion cubic feet.

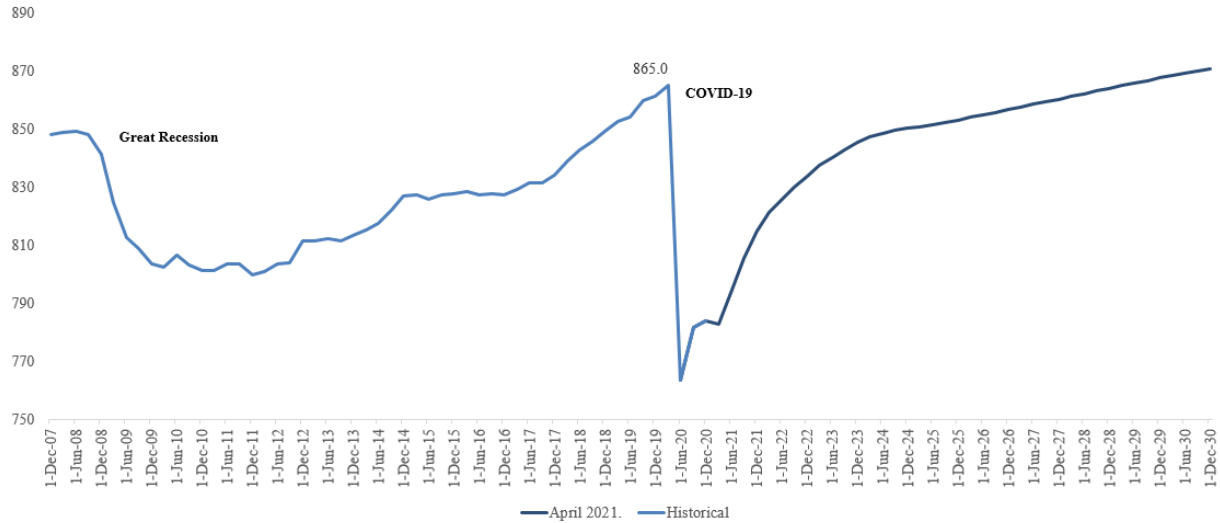
Update on New Mexico Employment Trends

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.

More than halfway through FY21, states continue to reopen their economies as vaccination rates increase among the general public. According to the New York Times, the state of New Mexico is among the top states in vaccine distribution with 33.4 percent of the population given at least one shot and 20.3 percent of the population being fully vaccinated as of March 31st, 2021.

From February 2020 to April 2020, New Mexico lost 104 thousand jobs. From April 2020 to March 2021, the state gained just over 35 thousand jobs. Employment recovery to pre-COVID-19 levels is expected to take several years under Moody’s Analytics baseline forecast.

Chart 5. New Mexico's Quarterly Total Non-Farm Employment by Forecast: 2007Q4 to 2030Q4

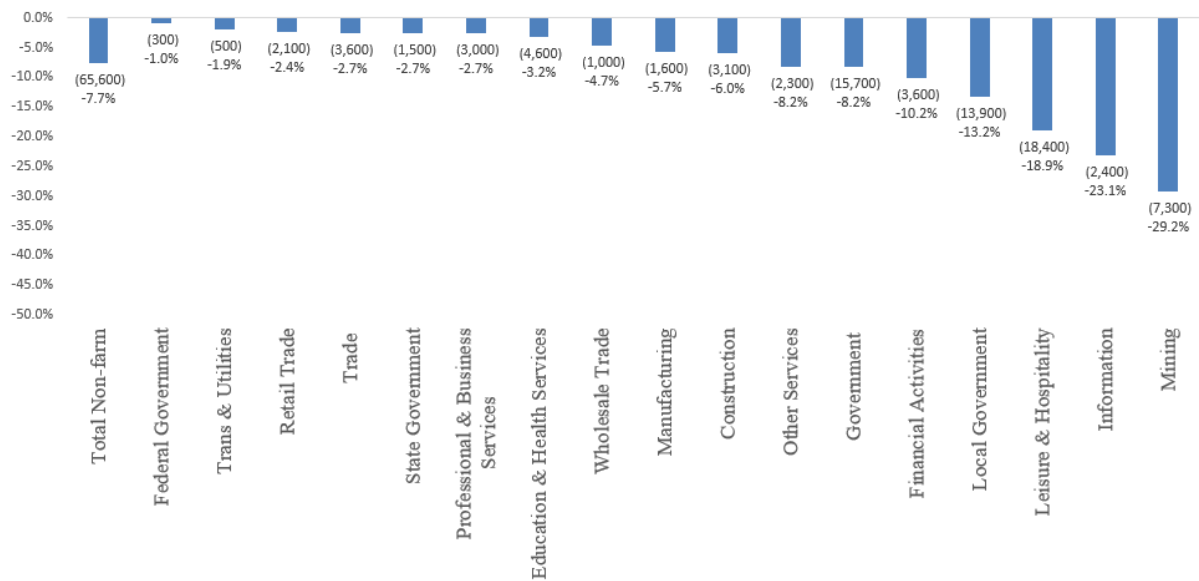


Source: bls.gov, Moody's Analytics

In March 2021, New Mexico’s employment declined by 7.7%, or 65,600 jobs compared to March 2020. The state’s year-over-year employment declined across all sectors in March. The most severe employment losses were experienced by the mining sector followed by the information sector, which lost 7,300 jobs and 2,400 jobs, respectively, when compared to March 2020.

This represents a 29.2% decline in employment in the mining sector and a 23.1% decrease in the information sector. The leisure and hospitality sector declined by 18.9% or declined by 18,400 jobs on a year-over-year basis as indicated in chart 6.

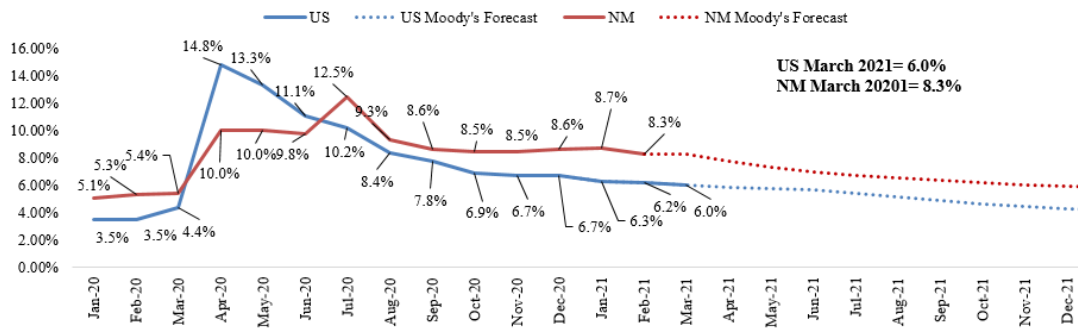
**Chart 6. Percent Change and Level Change in Non-Farm Employment in New Mexico by Sector
March 2020 to March 2021**



Source: bls.gov, CES not seasonally adjusted

The New Mexico unemployment rate remained unchanged from February to March at 8.3%. The national unemployment rate declined slightly down from 6.2% in February to 6% in March.

Chart 7. US and NM Unemployment Rate (percent) : January 2020 to March 2021



Source: bls.gov, seasonally adjusted

Table 3 illustrates the FY21 actual revenues through January, some preliminary data in February, and estimated revenues through the rest of the fiscal year based on historical patterns and shares. DFA tracking reporting illustrates FY21 recurring revenues are tracking about \$111.8 million above the February consensus revenue forecast. For estimated details on the general fund tracking model see the table below.

(millions \$)	FY21 Actual + Estimate	FY21 Forecast	% Difference to Forecast	Forecast Year-to- Date Variance
Gross Receipts Tax	2,636.3	2,520.5	4.6%	115.8
Compensating Tax	55.2	54.3	1.6%	0.8
Insurance Premiums Tax	232.9	230.8	0.9%	2.1
Motor Vehicle Excise Tax	156.9	156.3	0.4%	0.6
Other Selective Excise Taxes	133.3	141.2	-5.6%	-7.9
Personal Income Tax	1,613.3	1,587.1	1.6%	26.2
Corporate Income Tax	69.5	51.4	35.1%	18.1
O&G Emergency School Tax	420.4	420.4	0.0%	0.0
Other Mineral Taxes	45.3	45.8	-1.0%	-0.5
License Fees	32.0	52.7	-39.3%	-20.7
Land Grant Permanent Fund Distributions	719.9	719.9	0.0%	0.0
State Treasurer's Earnings	21.0	31.0	-32.2%	-10.0
Severance Tax Perm. Fund Distributions	234.2	234.0	0.1%	0.1
Federal Mineral Leasing	738.5	738.5	0.0%	0.0
State Land Office (Bonuses, Rents)	38.0	59.4	-36.1%	-21.4
Tribal Revenue Sharing	44.4	53.8	-17.5%	-9.4
Miscellaneous Revenues	63.6	47.5	34.0%	16.1
Reversions	51.9	50.0	3.8%	1.9
Recurring Total	7,306.4	7,194.6	1.6%	111.8
Non-recurring revenue	56.8	62.8	-9.5%	-6.0
Total	7,363.3	7,257.4	1.5%	105.9

Source: DFA and historical monthly patterns

A copy of this report can be found at

<https://www.nmdfa.state.nm.us/office-of-the-secretary/general-fund-information/eau-general-fund-report/>