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FY2020

General Fund Monthly Report

March 2020 Accruals

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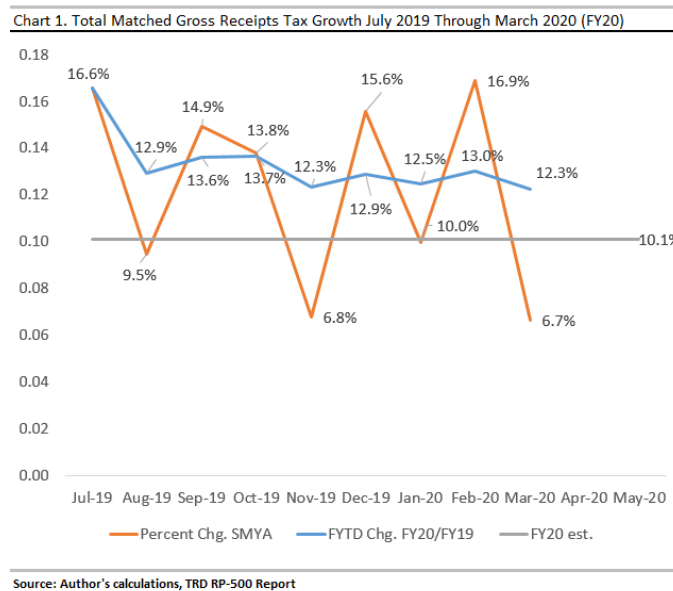
This report summarizes general fund revenues accrued through March 2020 during fiscal year 2020. The report also includes more recent data on oil and gas prices and volumes, New Mexico employment, and taxable gross receipts.

This report does not fully account for the changes in general fund revenue accruals in 2020 as a result of the Covid-19 outbreak and the recent Saudi Arabia-Russia price war. As these data are not fully available yet. DFA economists continue to monitor the energy markets, labor markets, economic conditions, COVID-19 updates, and state and national policy responses evolving daily to incorporate more recent data which better reflects the current economic outlook.

Highlights:

- The state of New Mexico collected \$5.8 billion in total general fund recurring revenues from July 2019 through March 2020. This is a decline of \$209 million or a 3.5 percent decline in fiscal year-to-date revenues through March 2020 (FYTD) compared to the same time 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 March 2020 would have grown by 5.2 percent or \$288 million.
- Total general fund collections for March 2020 were \$689.9 million, a decrease of 6.5 percent when compared to the collections in March 2019 (\$737.8 million).
- Fiscal-year-to-date revenues which increased on a year-over-year basis were: gross receipts tax revenue increased by 10 percent or \$200 million, selective sales tax revenues increased by 14.6 percent or \$53.9 million, and severance taxes which increased by 3 percent or \$12.6 million.

- Fiscal-year-to-date revenues which decreased on a year-over-year basis were: compensating tax revenue which decreased by 16 percent or \$9.4 million, and personal income tax revenues which decreased by 1.4 percent or \$15.7 million.
- 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 partial impact of the health care crisis can be seen in a slight decline in personal income tax revenue for March. Personal income tax revenue in March 2020 was \$167.2 million versus \$274.8 million in March 2019.
- The Department of Finance’s revenue tracking model which incorporates actual FYTD revenues and monthly estimates based on historical patterns estimates a 0.9 percent difference from the 2019 December revenue forecast. This indicates FY20 revenues through March 2020 are slightly below the December 2019 forecast by 0.9 percent. The tracking model’s summary table is on page 9. This model **does not fully** incorporate the impact of social distancing measures and the decrease in oil prices as these data are not available yet.
- Fiscal year-to-date total matched taxable gross receipts decreased 12.3 percent through March 2020 when compared to the same period in FY19. The greatest contributors to this performance have been the following sectors: retail trade, construction, and mining, and oil and gas extraction. See Chart 1 and Table 2 for details.



- April 2020 non-farm employment decreased by 10.4 percent compared to April 2019. The sectors with the strongest year-over-year job losses were leisure and hospitality declining by 43,800 jobs or 44.1 percent, other services declined by 6,000 jobs or 20.6 percent, the manufacturing sector declined by 4,800 jobs or 17 percent, and retail trade declined by 3,300 jobs or 12.5 percent.
- The New Mexico unemployment rate increased from 6.3 percent to 11.3 percent from March 2020 to April 2020. The national unemployment rate increased from 4.4 percent in March to

14.7 percent in April 2020. National data are available for an additional month, which saw the unemployment rate decline slightly down to 13.3 percent in May 2020.

	March 2019	March 2020	% Change Mar '19 to Mar '20	FY19 Through March	FY20 Through March	\$ Difference from FY to FY to Date	FYTD % Change	Dec '19 Forecast Full Year Growth
Gross Receipts Tax	\$239.0	\$254.3	6.4%	\$2,017.6	\$2,218.5	\$201.0	10.0%	10.1%
Compensating Tax	\$7.2	\$5.0	-30.5%	\$58.7	\$49.3	(\$9.4)	-16.0%	6.0%
Selective Sales Tax*	\$33.0	\$73.6	122.6%	\$367.5	\$421.5	\$53.9	14.7%	3.0%
Personal Income Tax	\$274.8	\$167.2	-39.2%	\$1,112.6	\$1,096.9	(\$15.7)	-1.4%	-2.9%
Corporate Income Tax	\$30.0	\$18.9	-37.0%	\$118.6	\$20.5	(\$98.1)	-82.7%	-54.7%
Severance Taxes**	\$4.5	\$1.9	-57.2%	\$416.6	\$429.3	\$12.7	3.0%	2.5%
Interest Earnings	\$84.8	\$91.3	7.7%	\$696.8	\$751.2	\$54.4	7.8%	3.5%
Mineral Rents /Royalties***	\$56.2	\$78.9	40.3%	\$1,097.8	\$727.1	(\$370.7)	-33.8%	-30.9%
Other Revenues	\$8.4	(\$1.0)	-112.3%	\$111.5	\$74.5	(\$37.0)	-33.2%	n/a
Total Recurring Revenues	\$737.8	\$689.9	-6.5%	\$5,997.6	\$5,788.7	(\$209.0)	-3.5%	-2.9%
Total Recurring Revenue (Excluding Oil & Gas)	\$677.1	\$609.1	-10.0%	\$4,483.3	\$4,632.4	\$149.1	3.3%	2.4%

* 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 March 2020 and FY20 year-to-date revenue collections for the major categories of general fund appropriation account revenues. Preliminary general fund recurring revenues through March are approximately \$5.8 billion, a decrease of \$209 million, or a decline of 3.5 percent 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 March 2020 would have grown by 5.2 percent or \$288 million.

It should be noted, as part of the December 2019 full-year forecast, the CREG’s consensus on the average price of oil for New Mexico in FY20 is estimated at \$52.00/barrel and \$2.10/mcf for natural gas. This estimate was derived using the best available information at the time and before the Covid-19 outbreak and current 2020 economic outlook. **Future iterations of this report will be updated with the CREG’s updated June forecast.**

Gross Receipts Tax

Year-to-date matched taxable gross receipts through March increased by 12.3 percent year-to-date. 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 several reasons, some of which may simply reflect the timing of payments, refund claims, etc. Year-over-year growth occurred in most industries.

The construction sector accounted for \$6.9 billion in revenue collected and fiscal year-to-day (FYTD) growth of 22.8 percent compared to the prior fiscal year. The retail trade sector collected \$11.4 billion and FYTD growth compared to the previous fiscal year was 11.6 percent. Lastly, the mining and oil and gas extraction sector collected \$5.4 billion or 9.1 percent during the same period. Gross receipts tax revenue which is derived from total matched taxable gross receipts (See Table 2).

Sector	FYTD (\$millions)	FYTD Percent Change	Percent of Total Growth
Agriculture, Forestry, Fishing and Hunting	\$ 97.76	4.7%	0.07%
Mining and Oil and Gas Extraction	\$ 5,445.69	9.1%	7.72%
Utilities	\$ 2,122.46	9.1%	3.01%
Construction	\$ 6,850.54	22.8%	21.57%
Manufacturing	\$ 1,565.30	7.9%	1.95%
Wholesale Trade	\$ 2,638.89	6.2%	2.63%
Retail Trade	\$ 11,375.29	11.6%	20.05%
Transportation and Warehousing	\$ 738.01	-4.0%	-0.53%
Information and Cultural Industries	\$ 2,218.47	15.4%	5.03%
Finance and Insurance	\$ 291.84	3.9%	0.18%
Real Estate and Rental and Leasing	\$ 1,420.50	12.6%	2.69%
Professional, Scientific and Technical Services	\$ 5,019.90	0.3%	0.24%
Management of Companies and Enterprises	\$ 31.43	29.6%	0.12%
Admin and Support, Waste Mgt and Remed	\$ 2,231.52	52.7%	13.05%
Educational Services	\$ 234.52	49.6%	1.32%
Health Care and Social Assistance	\$ 2,632.44	8.5%	3.51%
Arts, Entertainment and Recreation	\$ 264.51	1.1%	0.05%
Accommodation and Food Services	\$ 3,449.50	-1.2%	-0.73%
Other Services (except Public Admin)	\$ 4,511.27	25.1%	15.35%
Public Administration	\$ 183.68	22.4%	0.57%
Unclassified Establishments	\$ 641.60	24.4%	2.13%
All Industries	\$ 53,965.10	12.3%	100%
Excluding O&G	\$ 48,519.41	12.6%	n/a

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

Total FYTD gross receipts through March 2020 were \$2.2 billion, or a 10 percent increase from the prior year (see Table 1 for details). This is on par with the FY20 revenue CREG forecast of 10.1 percent in December 2019. In March 2020 gross receipts tax revenue was \$254 million, this represents a 6.4 percent increase from the same month one-year-ago. This data does not yet reflect the impact of the Covid-19 pandemic.

Selective Sales Tax

Selective sales tax growth experienced a fiscal year-to-date (FYTD) increase of 14.7 percent when compared to the same period one year ago. The full-year forecast projects a full fiscal year growth of 3.0 percent.

Severance Taxes/ Mineral Rents/Royalties

Severance tax revenue collected through March was \$429 million, an increase of 3 percent when compared to the prior year. Mineral rents and royalties' revenue through March was \$727 million, which represents a decline of 33.8 percent 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 \$126.3 million or 21 percent through March 2020.

Severance tax revenues for the entire year are forecasted to grow by 2.5 percent. The full-year forecast for mineral rents and royalties is expected to decline by 30.9 percent. 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 Permian Basin last year. Increased production volumes have continued even as oil prices have decreased in the observed period. New Mexico has experienced sustained record-high rig counts

through calendar year 2019 and the beginning of calendar year 2020. **This report does not account for the 2020 oil price collapse as a result of the Covid-19 outbreak and the Saudi Arabia-Russia price war. As these data are not available yet.**

Personal Income Tax

Personal income tax revenues year-to-date through March were \$1,097 million, which represents a decrease of 1.4 percent from the prior fiscal-year-to-date revenues (\$1,112.6 million). Personal income tax revenues in March 2020 were \$167.2 million, lower than the same month in the prior year which booked \$274.8 million. The full-year forecast for personal income tax growth calls for a decline of 2.9 percent.

Corporate Income Tax

Corporate income tax (CIT) revenues year-to-date have experienced a decline of 82.7 percent. 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 growth estimates a decline of 54.7 percent for the full fiscal year.

Interest Earnings

Interest earnings year-to-date were \$751.2 million representing a growth of 7.8 percent when compared to the same period in FY19. The December 2019 forecast for interest earnings estimated 3.5 percent growth for the full fiscal year.

Other Revenues

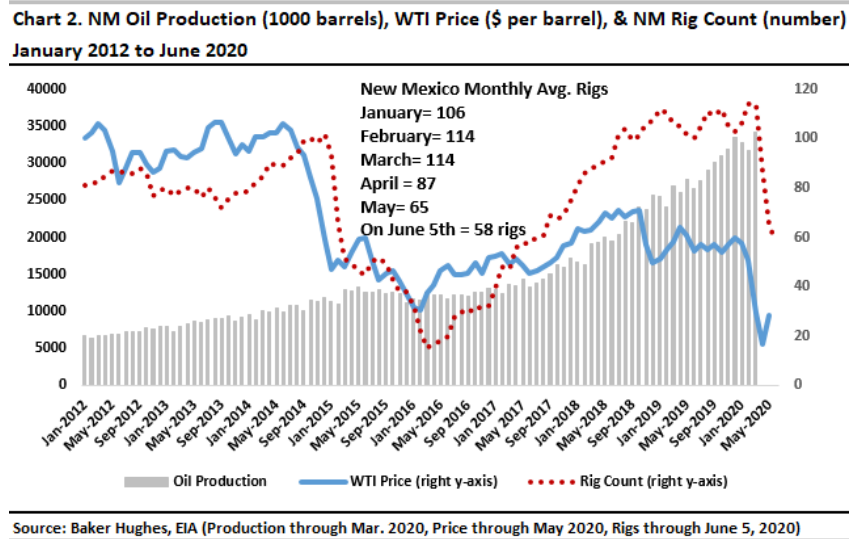
The other revenues category is the aggregate of the following individual revenue categories: License Fees, Tribal Revenue Sharing, Miscellaneous Receipts, and Reversions. The collections of these revenue streams vary per source and can cause the percent change to vary broadly on a month-to-month basis as well.

New Mexico Oil and Natural Gas Prices and Production

New Mexico oil prices in March 2020 averaged \$28.84 per barrel (bbl.), this represents a significant decline when compared to prices in March 2019, when New Mexico oil prices averaged \$55.30 per bbl. In March 2020, the benchmark WTI price of oil averaged \$29.21 per bbl., slightly higher than the New Mexico price.

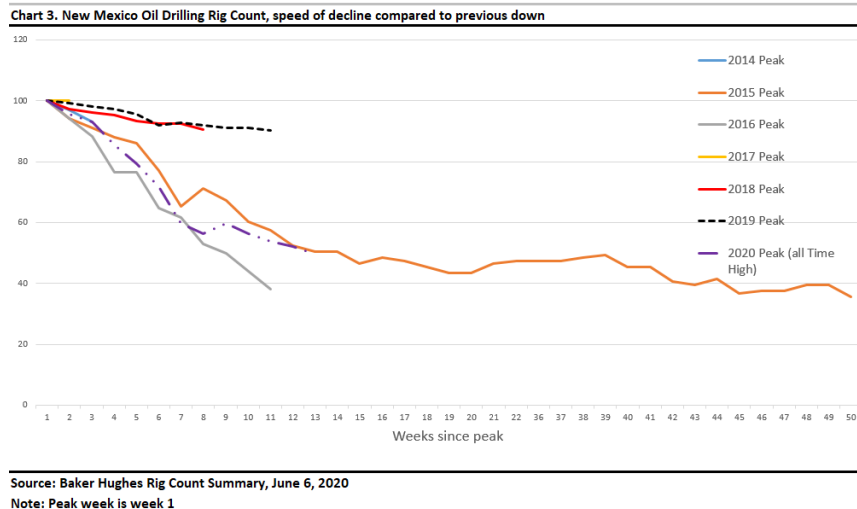
The collapse in oil prices in March were due to the loss of demand from the effects of the Covid-19 pandemic and the supply shock caused by the recent Saudi Arabia and Russia price war. Oil prices collapsed in mid-March, on April 20th, 2020 as the May futures contract expired, for the first time in history, oil prices collapsed to a negative \$37.63 per bbl. The negative oil price collapse reflects weak oil demand and oversupply of oil on the market. 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 2 details the trends and the relationship between New Mexico oil production, rig counts, and the WTI price. New Mexico rig counts on June 5th declined to 58 active rigs. This represents a 50 percent loss in rigs since March. EIA oil production data shows that New Mexico still experienced high oil production months in January and February with the state producing 32,823 thousand-barrels and 31,772 thousand-barrels, respectively. Additionally, EIA data illustrates that New Mexico oil production peaked in March at 34,250 thousand-barrels when New Mexico's active rigs also peaked at 117.



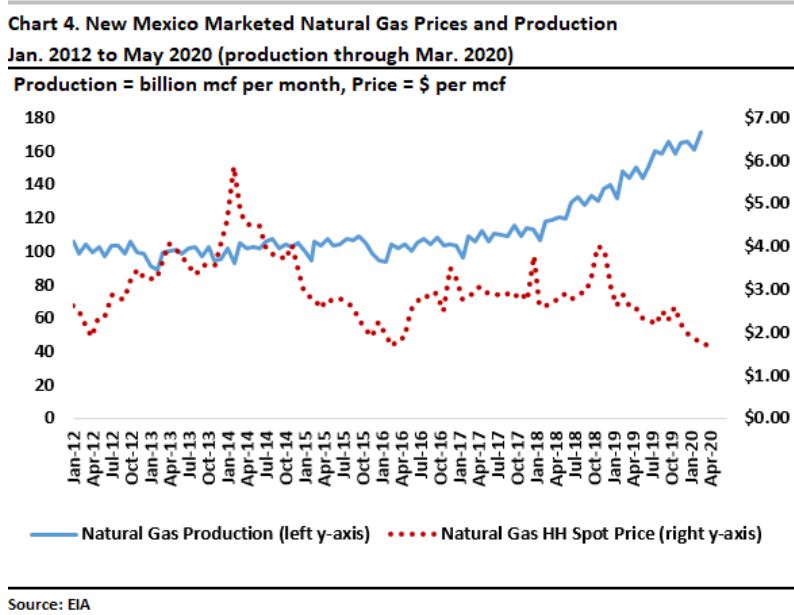
This data does not fully reflect the impacts of the healthcare crisis and the recent Saudi Arabia-Russian oil price war as New Mexico experienced the highest production month in March according to EIA, despite the oil price volatility. Rig counts have quickly declined since March.

Chart 3 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. However, in the last five weeks, the rig count decline has slowed and become more gradual and more in line with the rate of decline experienced in 2015.



Recent optimism of the national and state economies reopening, slight up-ticks in demand, and OPEC+ agreeing to oil output cuts on June 6th, 2020 have driven oil prices upwards. The current WTI oil price is at \$38.82 per bbl.

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 into 2020. Chart 4 illustrates the downward trend of natural gas prices. The chart also illustrates as oil production increases or decreases; natural gas production follows suit.



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.

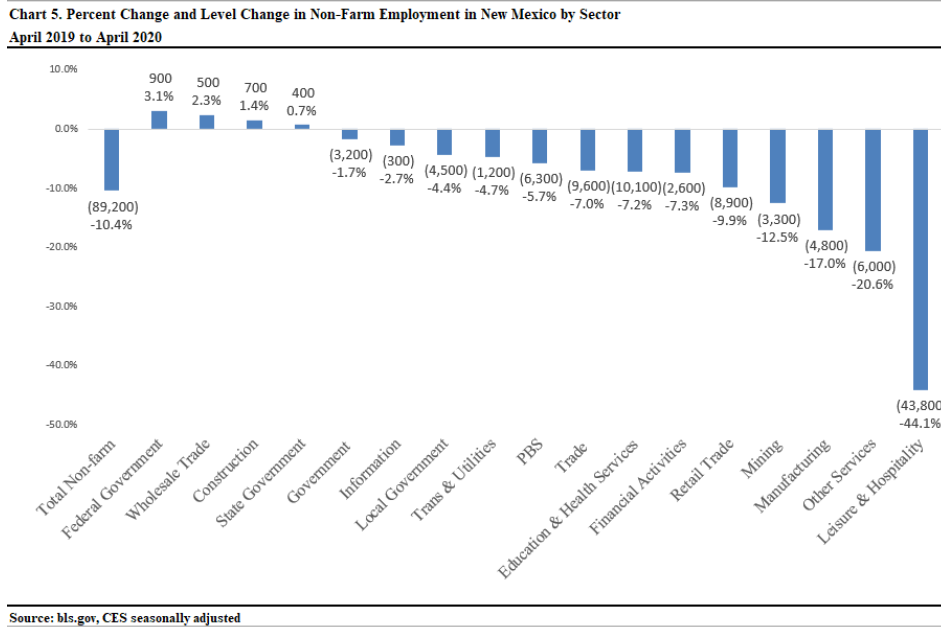
The United States is going through an unprecedented time due to the Covid-19 virus. The contagious nature of the virus resulted in New Mexico issuing a public health order implementing social distancing measures, closing non-essential businesses, limiting and reducing business capacity for hotels as well as restaurants. The impact of the Covid-19 health care crisis can be seen in the employment data for the state in April.

In April 2020, New Mexico’s employment declined by 10.4 percent, or 89,200 jobs, from the prior year (April 2019) when adjusted for seasonal variation.

Year-over-year New Mexico employment declined across most sectors in April. The most severe employment losses were experienced by the leisure and hospitality sector, which lost 43,800 jobs when compared to April 2019. This represents a 44.1 percent decline in employment for this sector. The other services declined by 20.6 percent or lost 6,000 jobs on a year-over-year basis.

The mining sector lost 4,800 jobs, representing a decline of 17 percent during the same period. Lastly, the retail trade sector lost 3,300 jobs, which represents a year-over-year decrease of 12.5 percent.

The following sectors experienced slight to moderate increases in employment growth from April 2019 to April 2020: federal government (3.1 percent), wholesale trade (2.3 percent), and construction (1.4 percent).



The New Mexico unemployment rate increased from 6.3 percent to 11.3 percent from March 2020 to April 2020. The national unemployment rate increased from 4.4 percent in March 2020 to 14.7 percent in April 2020. Currently, national unemployment data are available for an additional month, which saw the unemployment rate decline slightly down to 13.3 percent in May 2020. Moody's baseline unemployment rate forecast for the US and NM does not have the unemployment rate declining below 7 percent through the end of December 2021.

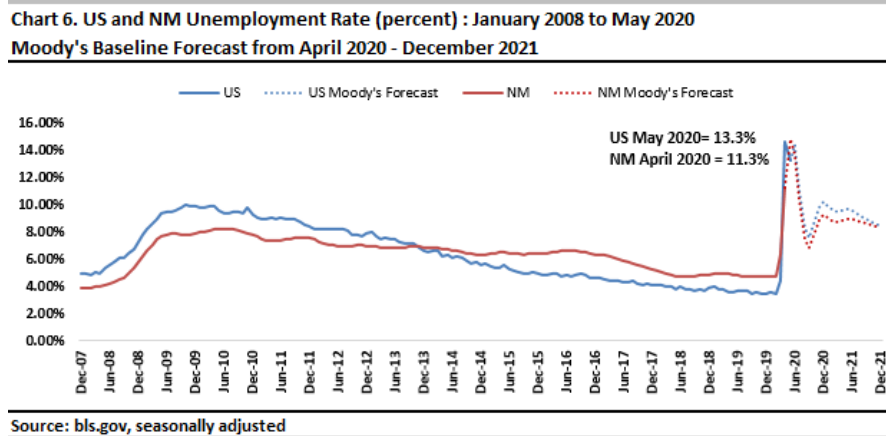


Table 3 illustrates that FY20 actual revenues through March 2020 plus estimated revenues based on historical patterns and shares are 0.9 percent or \$70.1 million below the December 2019 CREG forecast. For estimated details on the general fund tracking model see the table below. **This estimate does not fully account for the 2020 oil price changes as a result of the Covid-19 outbreak and the Saudi Arabia-Russia price war. As these data are not yet fully available.**

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	2,928.9	2,928.8	0.0%	0.1
Compensating Tax	70.1	82.9	-15.4%	-12.8
Insurance Premiums Tax	180.7	206.1	-12.3%	-25.4
Motor Vehicle Excise Tax	148.0	150.0	-1.3%	-2.0
Other Selective Excise Taxes	198.5	203.5	-2.5%	-5.0
Personal Income Tax	1,632.3	1,623.3	0.6%	9.0
Corporate Income Tax	42.2	55.6	-24.0%	-13.4
O&G Emergency School Tax	389.2	382.4	1.8%	6.8
Other Mineral Taxes	51.7	52.9	-2.3%	-1.2
License Fees	28.1	52.8	-46.7%	-24.6
Land Grant Permanent Fund Distributions	671.8	671.8	0.0%	0.0
State Treasurer's Earnings	95.1	82.1	15.8%	13.0
Severance Tax Perm. Fund Distributions	225.3	225.3	0.0%	0.0
Federal Mineral Leasing	813.2	810.4	0.4%	2.9
State Land Office (Bonuses, Rents)	77.6	74.0	4.8%	3.6
Tribal Revenue Sharing	73.4	80.1	-8.4%	-6.7
Miscellaneous Revenues	40.6	49.9	-18.6%	-9.3
Reversions	39.2	45.5	-13.9%	-6.3
Recurring Total	7,705.7	7,776.2	-0.9%	-70.6
Nonrecurring	29.3	28.8	1.7%	0.5
Total	7,735.0	7,805.0	-0.9%	-70.1

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