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FY2020

General Fund Monthly Report

October 2019 Accruals

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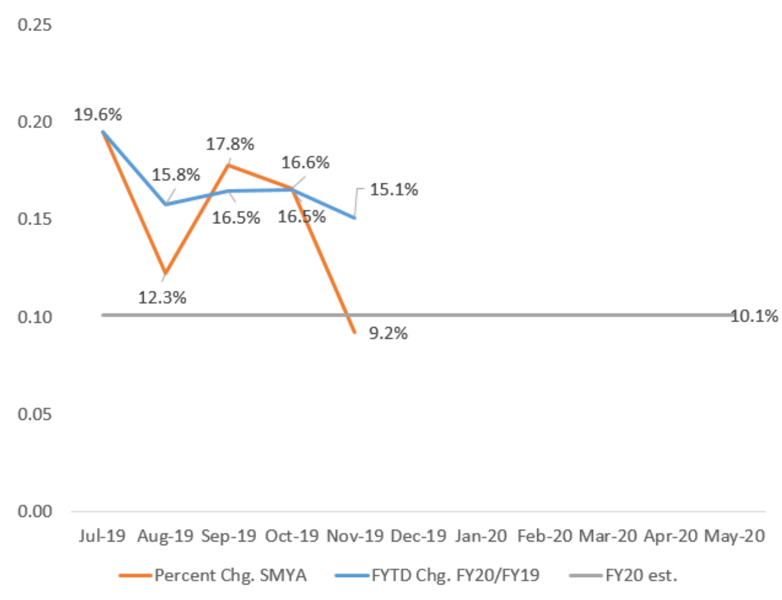
This report summarizes general fund revenues accrued through October 2019 during the fiscal year 2020. The report also includes more recent data on oil and gas prices and volumes, New Mexico employment, and taxable gross receipts.

Highlights:

- The state of New Mexico collected $2.6 billion in total general fund recurring revenues from July 2019 through October 2019. This is an $80.7 million increase or a 3.2 percent increase in fiscal year-to-date revenues through October 2019 (FYTD) compared to the same time period last year.
- Total general fund collections for the month of October 2019 were $744.1 million, a 5.5 percent increase when compared to the collections in October 2018 ($705.6 million).
- The Department of Finance's revenue tracking model which incorporates actual FYTD revenues and monthly estimates based on historical patterns estimates a zero percent difference from the 2019 December revenue forecast. This indicates FY20 revenues are right on track with the December forecast. The tracking model's summary table is on page 8.
- Fiscal year-to-date total matched taxable gross receipts increased 15.1 percent through November 2019 when compared to the same time period in FY19. The greatest contributors to this performance have been the following sectors: construction, retail trade, and mining and oil and gas extraction. See Chart 1 and Table 2 for details.

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



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

- December 2019 non-farm employment increased by 1.8 percent compared to December 2018. The sectors with the strongest year-over-year job growth rate were Construction (10.8), Financial Activities (3.8), and Manufacturing (3.3). The Information sector saw a year-over-year employment decline of 5 percent.
- The New Mexico unemployment rate decreased slightly from 4.8 percent to 4.7 percent from November 2019 to December 2019. While the national unemployment rate increased from 3.5 percent to 3.6 percent from December 2019 to January 2020.

Table 1. General Fund Revenue Accruals

	October 2018	October 2019	% Change Oct '18 to Oct '19	FY19 Through October	FY20 Through October	$ Difference from FY to FY to Date	FYTD % Change	Dec '19 Forecast Full Year Growth
Gross Receipts Tax	$228.1	$267.3	17.2%	$883.4	$959.1	$75.7	8.6%	10.1%
Compensating Tax	$8.0	$6.4	-19.8%	$23.1	$26.6	$3.4	14.8%	6.0%
Selective Sales Tax*	$96.6	$75.7	-21.6%	$178.5	$181.9	$3.4	1.9%	3.0%
Personal Income Tax	$122.9	$121.0	-1.6%	$517.0	$530.7	$13.7	2.7%	-2.9%
Corporate Income Tax	$11.1	($14.2)	-227.2%	$63.4	($25.9)	($89.3)	-140.8%	-54.7%
Severance Taxes**	$55.1	$59.3	7.6%	$215.9	$223.0	$7.1	3.3%	2.5%
Interest Earnings	$74.6	$82.8	11.0%	$295.6	$325.7	$30.1	10.2%	3.5%
Mineral Rents /Royalties	$106.0	$144.3	36.1%	$310.5	$354.4	$43.9	14.2%	-30.9%
Other Revenues	**$3.2**	**$1.5**	**-52.6%**	**$35.2**	**$27.9**	**($7.3)**	**-20.8%**	**n/a**
Total Recurring Revenues	**$705.6**	**$744.1**	**5.5%**	**$2,522.7**	**$2,603.3**	**$80.7**	**3.2%**	**-2.9%**
Total Recurring Revenue (Excluding Oil & Gas)	**$544.4**	**$540.5**	**-0.7%**	**$1,996.3**	**$2,026.0**	**$29.7**	**1.5%**	**2.4%**

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

Table 1 above presents a summary of October 2019 and FY20 year-to-date revenue collections for the major categories of general fund appropriation account revenues. Preliminary general fund recurring revenues through October are approximately $2.6 billion, an increase of $80.7 million or a 3.2 percent increase from the same time period in FY19.

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.

Gross Receipts Tax

Year-to-date matched taxable gross receipts through November 2019 increased by 15.1 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 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.

The construction sector accounted for $3.8 billion in revenue collected and FYTD growth of 19.9 percent compared to the prior fiscal year. The retail trade sector collected $6.1 billion and FYTD growth compared to the previous fiscal year was 9.2 percent. Lastly, the mining and oil and gas extraction sector collected $3 billion or 9.5 percent during the same time period. Gross receipts tax revenue which is derived from total matched taxable gross receipts (See Table 2).

Total FYTD gross receipts through October 2019 were $959.1 million, an 8.6 percent increase from the prior year. This is on track to meet the FY20 revenue CREG forecast of 10.1 percent. In October 2019 gross receipts tax revenue was $267.3 million, this represents a 17.2 percent increase from the same month one-year-ago.

Table 2. FY20 Matched Taxable Gross Receipts by Sector
Fiscal Year-to-Date through November 2019

Sector		FYTD ($millions)	FYTD Percent Change	Percent of Total Growth
Agriculture, Forestry, Fishing and Hunting	$	60.80	3.9%	0.06%
Mining and Oil and Gas Extraction	$	3,002.38	9.5%	6.51%
Utilities	$	1,322.65	27.5%	7.12%
Construction	$	3,804.88	19.9%	15.74%
Manufacturing	$	855.66	7.3%	1.45%
Wholesale Trade	$	1,470.71	7.8%	2.67%
Retail Trade	$	6,114.95	9.2%	12.92%
Transportation and Warehousing	$	414.00	-6.1%	-0.67%
Information and Cultural Industries	$	1,171.39	11.9%	3.11%
Finance and Insurance	$	164.19	3.6%	0.14%
Real Estate and Rental and Leasing	$	862.43	22.6%	3.96%
Professional, Scientific and Technical Services	$	2,830.19	-5.5%	-4.08%
Management of Companies and Enterprises	$	16.84	27.7%	0.09%
Admin and Support, Waste Mgt and Remed	$	1,224.87	94.8%	14.87%
Educational Services	$	147.87	80.4%	1.64%
Health Care and Social Assistance	$	1,416.65	6.4%	2.12%
Arts, Entertainment and Recreation	$	154.77	18.8%	0.61%
Accommodation and Food Services	$	2,050.94	6.6%	3.19%
Other Services (except Public Admin)	$	2,781.82	39.1%	19.53%
Public Administration	$	370.49	404.0%	7.41%
Unclassified Establishments	$	320.88	25.3%	1.62%
All Industries	$	30,559.35	**15.1%**	**100%**
Excluding O&G	$	27,556.98	15.7%	n/a

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

Selective Sales Tax

Selective sales tax growth experienced a fiscal year-to-date increase of 1.9 percent when compared to the same time 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 October were $223 million, an increase of 3.3 percent when compared to the prior year. Mineral rents and royalties' revenue through October was $354.4 million, an increase of 14.2 when compared to the FYTD revenue from the prior year.

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%. This is due to an unprecedented federal mineral payment in FY19. Mineral rents and royalties revenues are expected to return to trend in FY20.

The strong positive growth in these two sectors is directly related to the increased oil production in the Permian Basin in the last three years. Increased production volumes have continued even as oil prices have decreased in the observed time period. New Mexico has experienced record high rig counts in the calendar year 2019. In the latter half of the calendar year, 2019 the oil and gas industry experienced a realignment towards investment value rather than high production. Due to this shift, in FY20, oil production is expected to continue to grow but at a slower pace as firms focus on investment value rather than on increasing production.

Personal Income Tax

Personal income tax revenues year-to-date through October were $530.7 million or an increase of 2.7 percent from the prior year. Personal income tax revenues in October 2019 were $121 million, slightly less than the same month one year ago $122.9 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 decreased by 140.8 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 growth increased by 10.2 percent when compared to the same time period in FY19. The December 2019 forecast for interest earnings estimated 3.5 percent growth for the full fiscal year.

Other Revenues

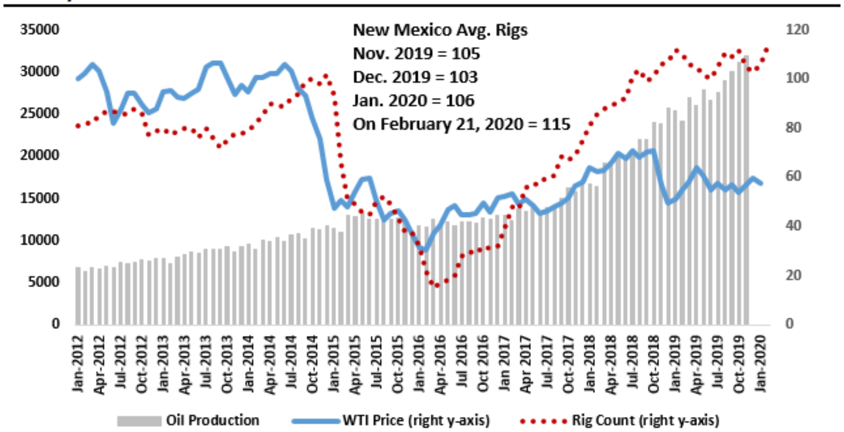
The other revenues category is the aggregate of the following individual revenue categories: License Fees, Tribal Revenue Sharing, Miscellaneous Receipts, and Reversions. The collections of these revenue streams vary per source and can cause the percent change to vary broadly on a month-to-month basis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

New Mexico Oil and Natural Gas Prices and Production

New Mexico oil prices for November 2019 averaged $55.44 per barrel (bbl.), which compares to $48.53 per bbl. for November 2018. In November 2019 the benchmark WTI price of oil averaged $57.03 per bbl. According to the Energy Information Administration (EIA), the New Mexico field production of crude oil increased by 34 percent from November 2018 to November 2019. The WTI price of oil trended downward from July 2019 through October 2019. In November 2019 the WTI price of oil rebounded slightly to an average $57.01/barrel. Through the last couple of months of the calendar year 2019, rig counts in New Mexico average 103 rigs in December 2019. Rig counts have rebounded to a record high 115 as of February 21, 2020.

Chart 2 details the trends and the relationship between New Mexico oil production and rig counts, and the WTI price. Post-mid-2018 producers have maintained increasing production levels with relatively lower prices. Rig counts and production have increased illustrating the conducive relationship between New Mexico's geology and more modern extractive techniques.

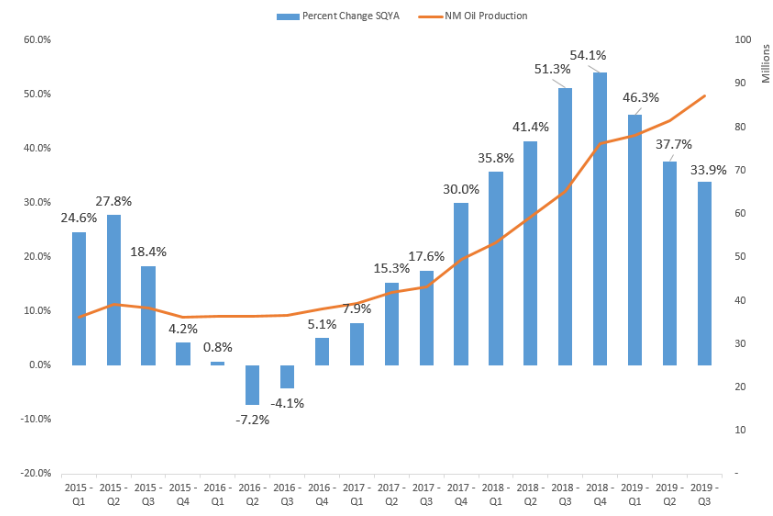
Chart 2. NM Oil Production (1000 barrels), WTI Price ($ per barrel), & NM Rig Count (number)
January 2012 to November 2019



Source: Baker Hughes, EIA (Production through Nov. 2019, Price through Jan. 2020, Rigs through Feb. 21, 2020)

Chart 3 illustrates New Mexico's oil production from 2015Q1 through 2019Q3 using data from the Taxation and Revenue Department's GenTax system. The trendline shows the increase in oil production from 2016Q4 through 2018Q4. From 2018Q4 through 2019Q3 the chart also illustrates the change in the rate of growth in oil production. In the more recently available data, oil production continues to grow but at a slower pace.

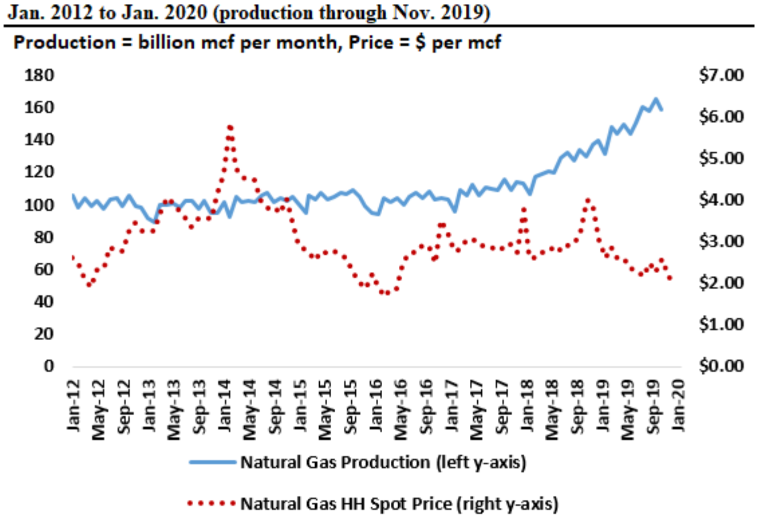
Chart 3. New Mexico Oil Production 2015Q1 to 2019Q3
Percent Change: Quarter-Over-Same-Quarter-One-Year-Ago



Source: DFA, New Mexico TRD Gentax System

Natural gas production has increased as the energy industry continues to increase its oil production. Natural gas prices have remained low through 2018 and most of 2019. During the latter half of 2019, natural gas prices have declined to $2.00/mcf. New Mexico continues to experience an oversupply of natural gas production. Additional pipeline capacity in the Permian Basin in the near future is expected to alleviate this issue, however, the oversupply of natural gas is expected to keep natural gas prices low as well. Chart 4 illustrates the downward trend of natural gas prices.

Chart 4. New Mexico Marketed Natural Gas Prices and Production
Jan. 2012 to Jan. 2020 (production through Nov. 2019)



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.

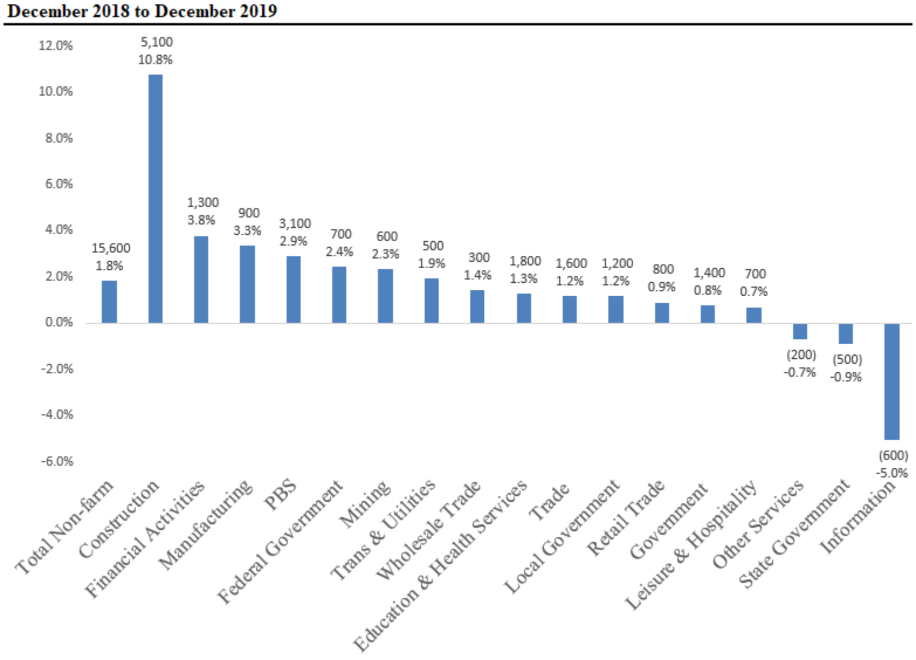
In December 2019 New Mexico employment grew by 1.8 percent, or 15,600 jobs, from the prior year (December 2018) when adjusted for seasonal variation.

Employment grew across several sectors in December. Economic growth in the state was led by the construction sector, which experienced a 10.8 percent year-over-year growth in employment. This was followed by the financial activities sector in which employment grew by 3.8 percent compared to the same month one year ago. The manufacturing sector performed well, with employment growth of 3.3 percent during the same time period. The mining sector has shown slower growth through the last quarter of 2019. The mining sector had employment growth of 2.3 percent.

The following sectors experienced slight to moderate declines in employment growth from December 2018 to December 2019: state government and the information sector with a decline of 0.9 percent and 5 percent, respectively.

The unemployment rate for the state in December 2019 was 4.7 percent, 0.3 percent lower when compared to the 5.0 percent rate in December 2018. The national unemployment rate decreased to 3.6 percent in January 2020 compared to 4.0 percent in January 2019.

Chart 5. Percent Change and Level Change in Non-Farm Employment in New Mexico by Sector December 2018 to December 2019



Source: bls.gov, CES seasonaly adjusted

The DFA general fund tracking model is based on actual fiscal-year-to-date revenues plus estimated monthly revenues for the rest of the fiscal year. The estimated figures are based on monthly percentage shares, historical patterns, and assumptions made by the author.

Table 3 illustrates that FY20 actual revenues plus estimated revenues are on par with the December 2019 CREG forecast. With a percent difference of zero percent from the 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	2,919.7	2,928.8	-0.3%	-9.1
Compensating Tax	84.7	82.9	2.2%	1.8
Insurance Premiums Tax	189.8	206.1	-7.9%	-16.3
Motor Vehicle Excise Tax	149.5	150.0	-0.3%	-0.5
Other Selective Excise Taxes	201.4	203.5	-1.0%	-2.1
Personal Income Tax	1,698.1	1,623.3	4.6%	74.8
Corporate Income Tax	8.2	55.6	-85.3%	-47.4
O&G Emergency School Tax	396.1	382.4	3.6%	13.7
Other Mineral Taxes	51.6	52.9	-2.5%	-1.3
License Fees	48.5	52.8	-8.0%	-4.2
Land Grant Permanent Fund Distributions	671.8	671.8	0.0%	0.0
State Treasurer's Earnings	71.0	82.1	-13.6%	-11.1
Severance Tax Perm. Fund Distributions	225.3	225.3	0.0%	0.0
Federal Mineral Leasing	812.2	810.4	0.2%	1.8
State Land Office (Bonuses, Rents)	72.2	74.0	-2.5%	-1.8
Tribal Revenue Sharing	80.4	80.1	0.4%	0.3
Miscellaneous Revenues	49.4	49.9	-1.0%	-0.5
Reversions	45.1	45.5	-0.9%	-0.4
Recurring Total	7,774.9	7,776.2	0.0%	-1.3
Nonrecurring	28.5	28.8	-1.1%	-0.3
Total	**7,803.4**	**7,805.0**	**0.0%**	**-1.6**

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