TAXATION & REVENUE
NEW MEXICO

Presentation to the New Mexico Revenue Revenue Stabilization & Tax Policy Committee:
General Fund Consensus Revenue Estimate — September 14, 2017
John Monforte, Acting Cabinet Secretary & Elisa Walker-Moran, Chief Economist
Economists: Hector Dorbecker, James Kaminsky, James Girard, Lucinda Sydow

Executive Summary of Consensus Revenue Forecast

Consensus Revenue Estimating Group (CREG) estimates for Fiscal Year 2017 (FY17) are expected to come in $140 million higher than the December 2016 CREG estimates, based on preliminary actuals and FY18 revenues are expected to come in $12 million higher. However, since the December 2016 forecast, the CREG revised projections for FY19 through FY21 downward. Table 1 provides a summary of the August 2017 revisions to previously estimated revenues contained in the most recent consensus forecast, released in December of 2016.

Table 1
August 2017 Consensus General Fund Recurring Revenue Outlook
(Millions of Dollars)

	FY17	FY18	FY19	FY20	FY21	FY22
December 2016 Estimate	$5,600	$5,929	$6,142	$6,383	$6,630	
August 2017 Revisions	$140	$12	-$35	-$68	-$140	$6,738
August 2017 Consensus	$5,741	$5,941	$6,107	$6,314	$6,491	$6,738
Annual Change	$24	$201	$166	$207	$176	$248
Annual Percent Change	0.4%	3.5%	2.8%	3.4%	2.8%	3.8%

The most recent upward adjustments in FY17 – FY18 are due to strength in Gross Receipts Taxes revenue, while downward adjustments in FY19 – FY21 are due to weakness in the extractive industries, Personal Income Taxes revenue and Corporate Income Taxes revenue. Since the December 2016 forecast, weak economic factors include lower-than-expected employment, personal income and wage and salary growth. Although growth is positive, non-agricultural employment growth is revised down from 0.7% to 0.2% in FY17, from 1.2% to 0.9% in FY18, and from 1.4% to 1.1% in FY19. Additionally, personal income growth is revised down from 2.4% to 1.8% in FY17, from 3.6% to 2.5% in FY18, and from 4.5% to 3.5% in FY19. Finally, wages and salaries growth is revised down from 2.4% to 1.3% in FY17, from 4.0% to 2.7% in FY18, and from 4.2% to 3.4% in FY19.

Executive Summary of Major Revenue Sources

Due to the CREG revenue forecast being revised upward for FY17 based on preliminary actuals, recurring General Fund revenues are expected to increase by 0.4% between FY16 and FY17. Projections were revised downward in this August 2017 forecast for FY19through FY21. Specifically, Gross Receipts Taxes (GRT), and Severance Taxes estimates were revised up while Personal Income Taxes (PIT), Corporate Income Taxes (CIT) estimates, and Federal mineral leasing (FML) revenue estimates were revised down from December for all of the forecast years. After these revisions, General Fund revenues are expected to increase by 3.5% from FY17 to FY18 and grow by 2.8% from FY18 to FY19. The FY17 and FY18 growth rates reflect both conservatism in the forecast and anticipated impacts to GRT that result from multi-year medical-related deductions and credits affecting FY17 that are expected to impact FY18 and FY19 and High-Wage Tax Credit savings in FY18. Table 2 summarizes the estimated revenues of the major sectors. Table 3 identifies the revisions by the major sectors. For more detail, see Appendix 1.

Table 2
August 2017 Consensus General Fund Recurring Revenue Outlook
(Millions of Dollars)

	FY17	FY18	FY19	FY20	FY21	FY22
Gross receipts tax	$2,020	$2,073	$2,124	$2,208	$2,249	$2,334
Selective sales taxes	$539	$571	$587	$601	$624	$642
Personal income tax	$1,285	$1,310	$1,326	$1,356	$1,400	$1,442
Corporate income tax	$50	$70	$74	$82	$83	$85
Energy-related revenues	$846	$839	$838	$852	$869	$896
Investment/Interest earnings	$738	$807	$867	$917	$960	$1,014
Other revenues	$263	$271	$291	$298	$306	$324
Total Recurring Revenue	**$5,741**	**$5,941**	**$6,107**	**$6,314**	**$6,491**	**$6,738**
Annual Percent Change	0.4%	3.5%	2.8%	3.4%	2.8%	3.8%

Table 3
August 2017 Revisions (Change from Prior Estimate)
(Millions of Dollars)

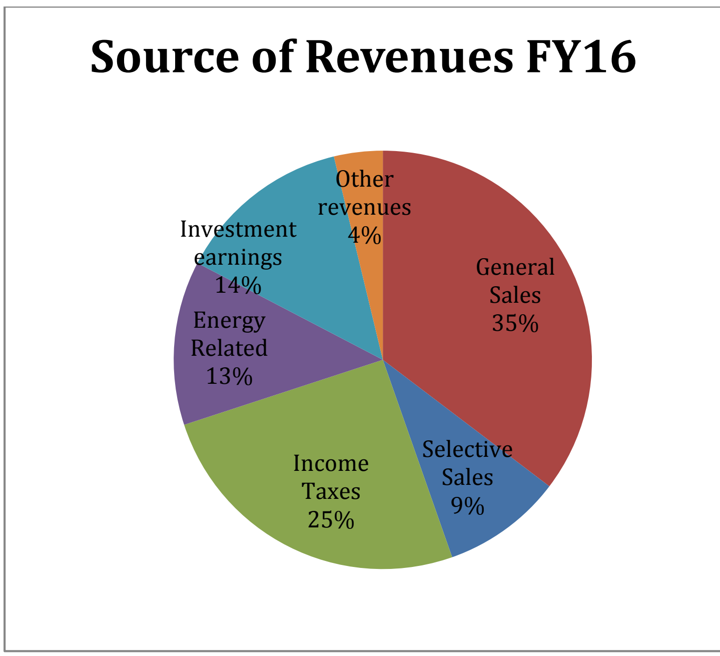
	FY17	FY18	FY19	FY20	FY21
Gross receipts tax	$151	$65	$20	($2)	($57)
Selective sales taxes	$4	$3	($4)	($14)	($15)
Personal income tax	($46)	($36)	($44)	($43)	($47)
Corporate income tax	($20)	($30)	($19)	($18)	($25)
Energy-related revenues	$60	$15	$8	($2)	($9)
Investment/Interest earnings	($3)	($4)	$6	$15	$24
Other revenues	($6)	($1)	($2)	($6)	($11)
Total Recurring Revenue	**$140**	**$12**	**($35)**	**($68)**	**($140)**

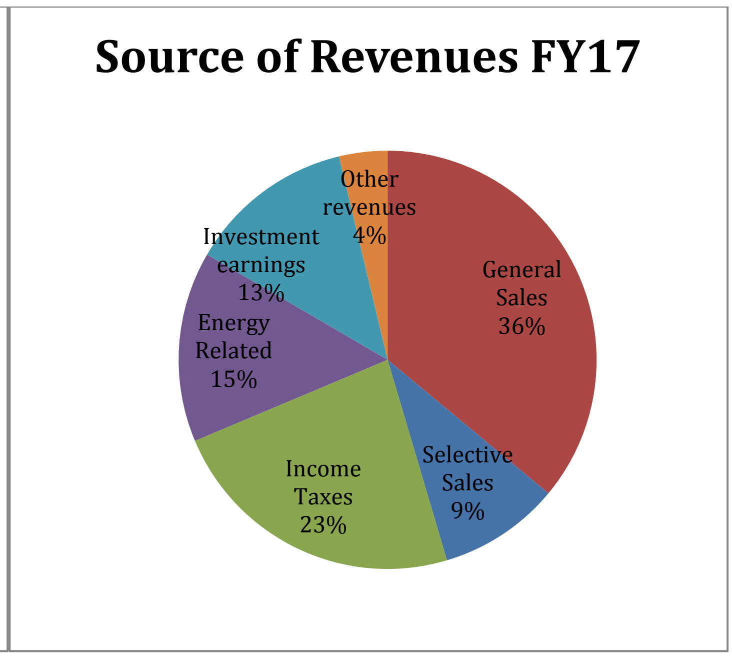
The CREG does not anticipate an economic recession during FY18 and believes that an unforeseen recessionary period would have a greater negative impact than currently anticipated. The CREG forecasts a moderate outlook and a continued slow recovery after the Great Recession that put downward pressure on consumer spending which recently shows positive signs of growth. The recently reported GRT from Amazon for New Mexico purchases will contribute to GRT growth. Health care spending continues to increase resulting in an increase in health care deduction claim amounts and lower GRT revenues. The potential for increased transfer payments from the federal government for lower income individuals is putting downward pressure on PIT revenue. Though not included in this forecast, upward pressure and potential revenue gains in the budget year could result from an increase in oil production as the rig count grew from an average of 51 in the first six months of 2017 to an average of 60 rigs in July through mid-August.

Source of Revenues

Figure 1 shows that the majority of General Fund revenue in FY16 comes from Gross Receipts Tax at 35% consistent with FY15 (35%) and FY14 (34%). The second largest revenue source is from Personal Income Taxes and Corporate Income Taxes at 25%, which is also consistent with FY15 (26%) and FY14 (24%). The third largest source consists of energy-related revenues at 13% for FY16, reflecting a 3% drop from FY15 (16%) and a 7% drop from FY14 (20%). In FY17, the majority of General Fund revenue is still forecast to come from Gross Receipts Tax but to grow to 36%. Revenue from Personal and Corporate Income taxes will remain the second largest source, but will decline to 23%. Energy-related revenues will grow to 15%.

Figure 1: Source of Revenues





Detailed Discussion, Tax Program Revenues

Gross Receipts Taxes (GRT)

According to preliminary actuals, GRT was revised upward in August 2017 by $151.4 million for FY17, revised upward by $65 million in FY18, and by $20.5 million in FY19. Part of the strength in GRT revenue collections in FY17 is due to the 60-day money and other credits line in the TRD's CRS Matrix public report, and due to lower-than-anticipated refund claims largely related to medical deductions for periods prior to the enactment of Senate Bill 6 (2016 Special Session). Much of the weakness in wages and salaries and employment, especially in the mining sector, results in weaker retail sales. Table 4 illustrates the current CREG GRT forecast.

The current 60-day trend shows a change from average negative amounts—a draw from the General Fund—to average positive amounts—a contribution to the General Fund. TRD determined that the Aged Credits and CRS Non-Payment Credits are the primary factors for this change. Further, FY17 experienced an unusual number of Aged Credits contributing to the strength in General Fund GRT.

Aged Credits are cash collected by TRD that does not have an associated return and that has been in the system for more than three years. Once cash becomes “aged”, GenTax subtracts the “aged amount” from the GRT distribution to the General Fund and deposits that money into the Aged Credits account, which reverts to the General Fund. While these are net transactions, the process indicates how much money “older than 3 years” taxpayers cannot claim and therefore remains in the General Fund.

The department has identified that $69 million in 60-day money ($50 million in FY17 and $19 million in FY16) and $22 million in “aged credits” are explained by taxpayers making payments on their personal income tax (PIT) withholding but not submitting a tax return that can be “matched”. Without a matched tax return, the unmatched money is booked as General Fund GRT revenue, not General Fund Withholding Tax or PIT revenue. This partially explains why PIT Withholding Tax revenue has grown more slowly than expected in FY17 and why GRT revenue is higher than expected.

Table 4
August 2017 CREG GRT Summary
(Millions of Dollars)

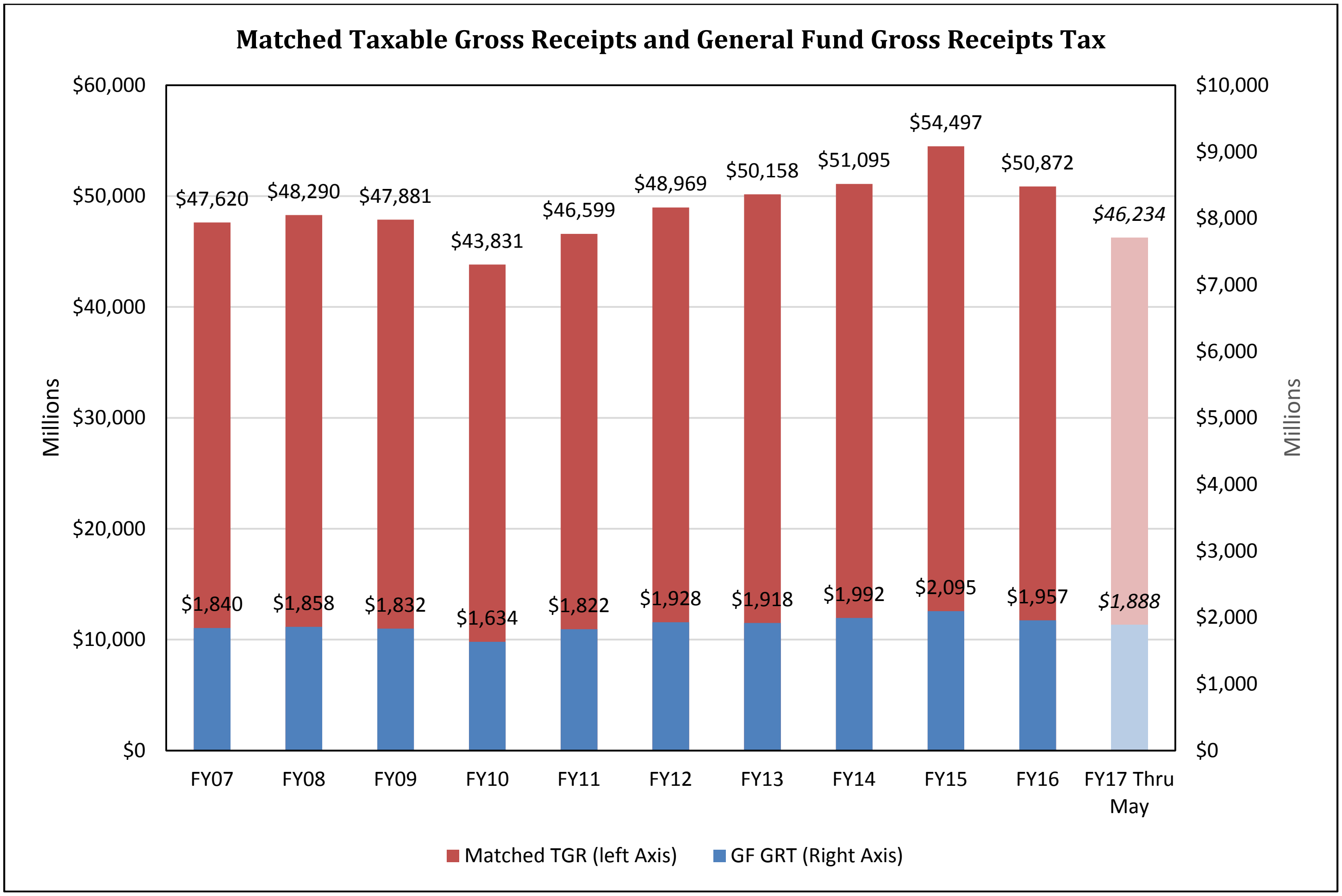
	FY17	FY18	FY19
December 2016 Estimate	$1,869	$2,008	$2,104
August 2017 Revisions	$151	$65	$20
August 2017 Consensus	$2,020	$2,073	$2,124
Annual Change, Dollars	$45	$53	$51
Annual Change, Percent	2.3%	2.6%	2.5%

Some of the projected GRT growth results from non-economic factors and policy changes. Non-economic factors include the food and medical hold-harmless phased-out distribution. Policy changes include those made to health care deductions and the High-Wage Jobs Tax Credit during the 2016 Special Session, which are projected to save tens of millions of dollars in FY18, when compared with FY17. One source of revenue loss is the federal government voting in 2016 to bar permanently state and local governments from taxing access to the Internet. The

CREG will continue to analyze this loss and this forecast assumed a potential loss of $50 million in GRT starting in FY21.

Figure 2 shows that Matched Taxable Gross Receipts (MTGR)[1] in FY16 declined by $3.6 billion (6.7%) while GRT revenue booked to the General Fund increased by $44.6 million (2.3%) between FY16 and FY17. MTGR in FY17 are expected to increase by $1.4 billion (2.8%) while GRT revenue booked to the General Fund is expected to increase by $53 million (2.6%) between FY17 and FY18.

Figure 2: MTGR and General Fund GRT



Preliminary actual FY17 GRT revenue collections through May 2017, as reported by DFA (General Fund Report), are approximately $132 million — 6.5% below the CREG August forecast. The CREG believes the base GRT decline is primarily caused by the state's heavy reliance on the oil and gas industry while the GRT increase is due to changes in the 60-day money and other credits line.

[1] Amount of computed taxable gross receipts based on amount of tax paid during the month and matched to returns.

In addition to the "price of oil effect"[2], the CREG attributes the weakness in base GRT in FY17 to downward pressure resulting from the continued effects of the HealthSouth decision.[3] This decision ruled that for-profit hospitals could claim § 7-9-93 deductions for services provided by health care practitioners at those facilities (for tax periods prior to the effective date of SB 6, 2016 Special Session). Claims paid in FY17 were about $10 million and are expected to continue at similar levels while claims in protest are settled. Additionally, CREG estimates refunds from High Wage Jobs Tax Credit applications of about $10 million for FY18.

As previously mentioned, a large portion of the declines in revenue collections in FY16, and so far in FY17, can be attributed to taxpayers amending returns to claim credits and deductions for multiple years they previously had not claimed, most specifically with respect to medical services. If not for these amendments, the CREG believes GRT growth rate would have seen less downward pressure in the current and previous fiscal years. These factors are discussed in more detail on pages 10 and 11.

[2] Interpreted as a combination of factors that include higher than anticipated declines in GRT revenue generated through the extractive industry statewide and higher than anticipated declines in economic activity in Lea, Eddy, and San Juan counties. These counties saw a reduction of GRT revenue collections of $230.5 million (-25.2%) between FY15 and FY16.

[3] It also indicated that TRD conceded that for-profit hospitals could claim the § 7-9-77.1 deduction for health care services when the payments for those services came from specified federal sources.

Figure 3 shows monthly MTGR exhibiting a similar seasonal monthly behavior year-over-year between July 2009 and May 2017. The last six fiscal years show December as traditionally the highest month while January-February show the lowest levels over the cycle.

Figure 3: Monthly MTGR by Fiscal Year

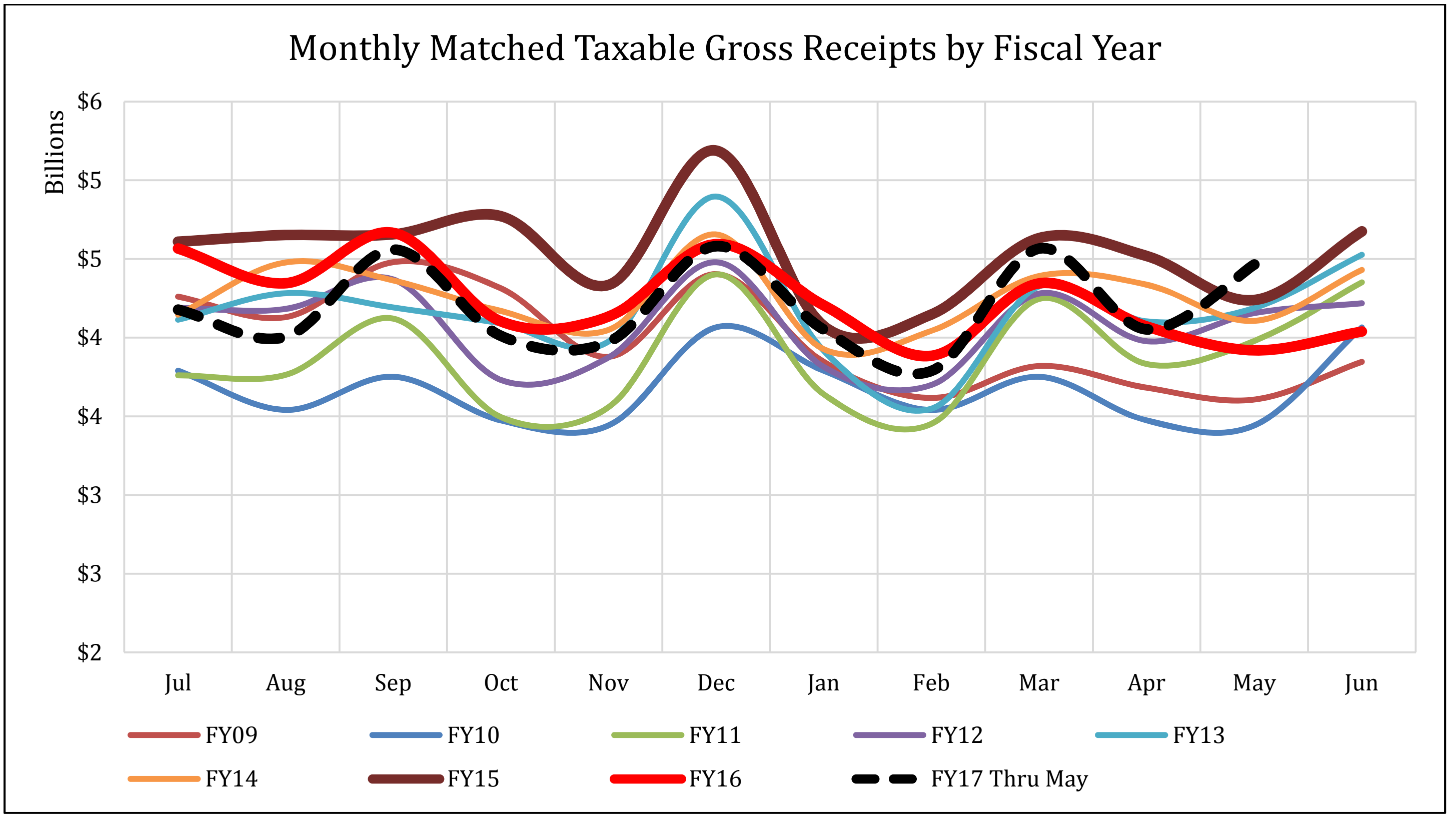
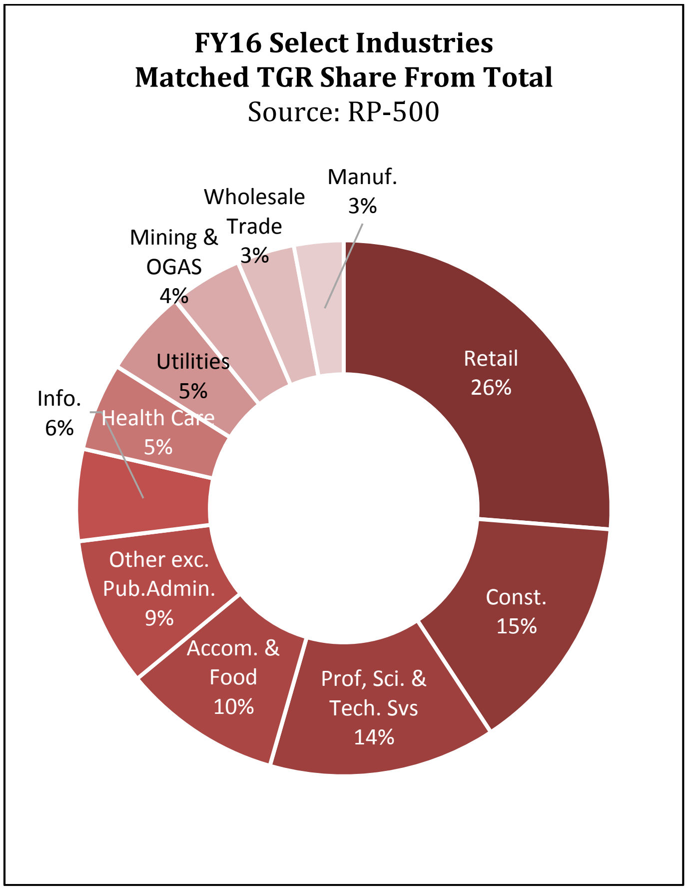


Figure 4 shows the proportions of MTGR by industry sectors in FY16 and in FY17 year-to-date. Retail Trade represents the largest portion of the total for both years. Construction industries and Professional, Scientific, and Technical Services are in second to third. Other relevant sectors, like Accommodation and Food Services, Health care, and Mining, Quarrying and Oil and Gas Extraction, do not show significant differences between the two periods.

Figure 4: MTGR by Industry Sector



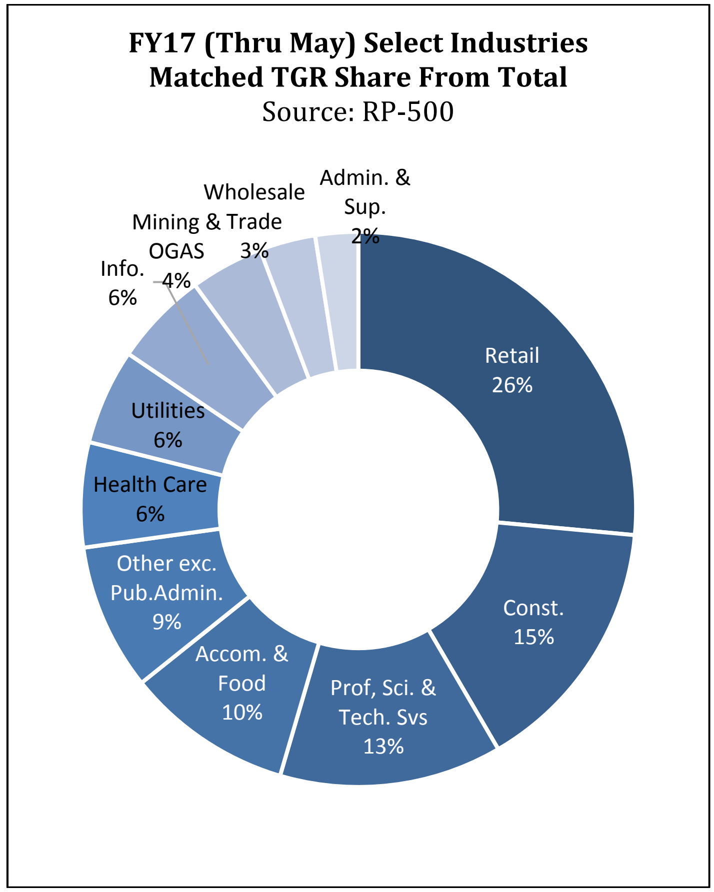


Figure 5 and Figure 6 show in combination the MTGR for key sectors between FY09 and FY16 and the increase or decrease amounts year-over-year, respectively. Although Retail Trade saw a decrease of $483 million in FY16 from FY15, their MTGR trend is positive for FY17 and beyond. The Construction sector continues to recover from the great recession as it added $94 million in FY16 from FY15 levels. The Professional, Scientific & Technical Services sector grew by $574 million of MTGR in FY16 over the previous year, but it is unclear if there would be head winds in FY17. The Mining and Extraction sector saw dramatic losses in FY16 of about $1.5 billion of MTGR from FY15. The forecast of employment from UNM Bureau of Business and Economic Research indicates that Mining and Extraction industry employment reached its lowest level at the end of 2016 and will begin to recover as crude prices continue to increase.

Figure 5: YR/YR TGR by Selected Industry Sectors

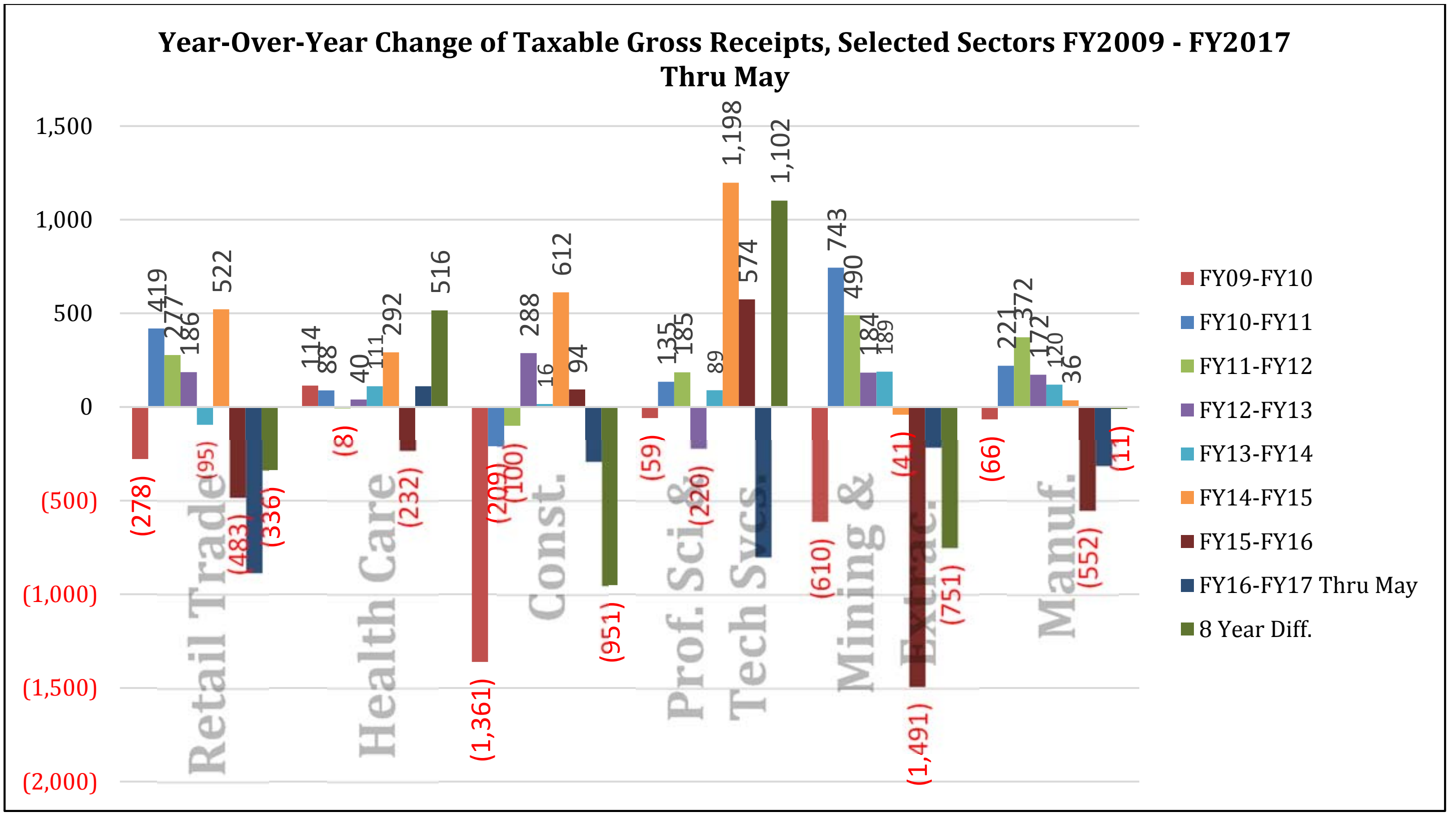
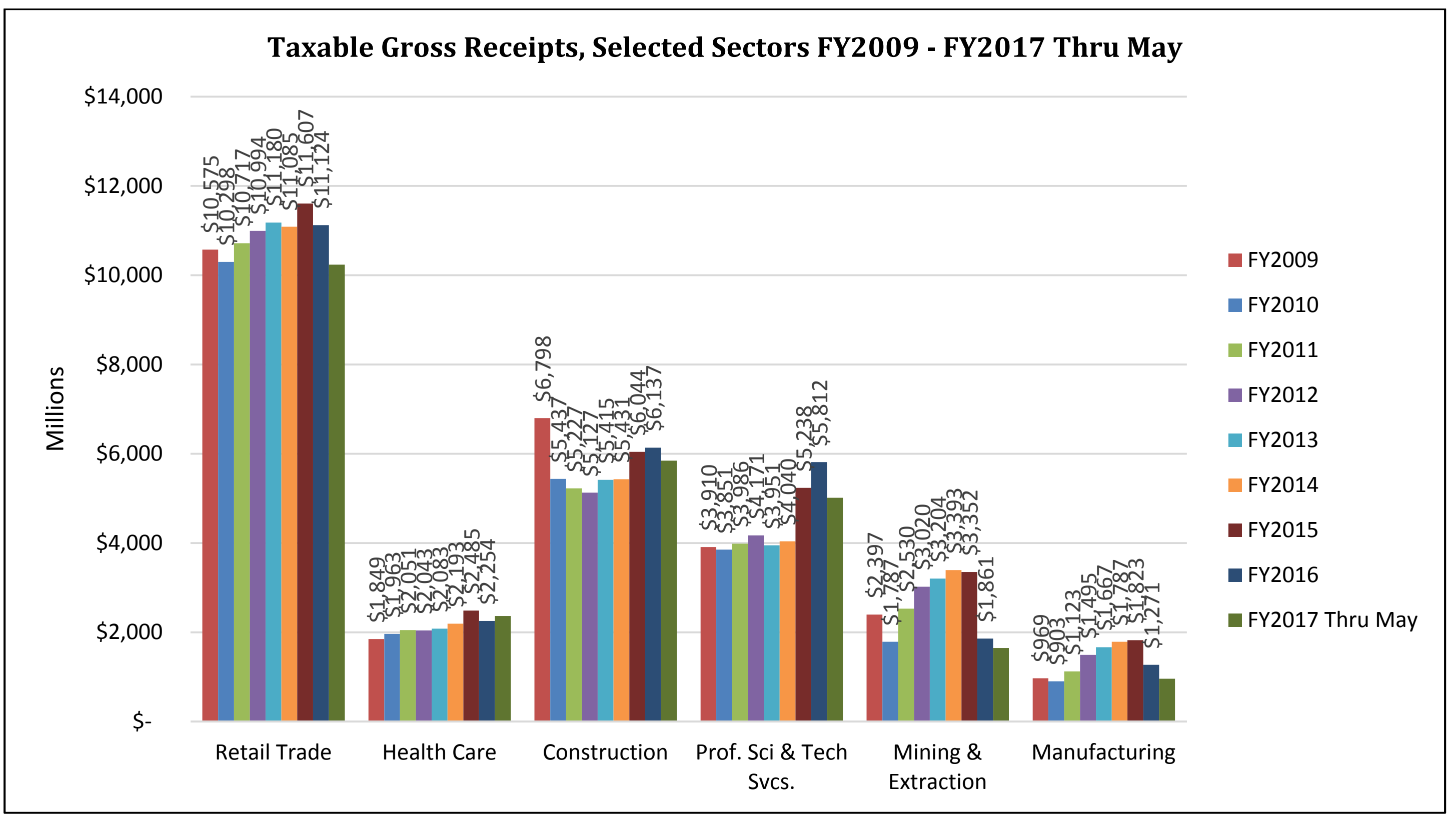


Figure 6: Change in TGR by Selected Industry Sectors



Effect of CRS Tax Credits on GRT Revenue

<u>High Wage Jobs Tax Credit (HWJTC)</u>: TRD assumed the law changes effective in June 2013, and made in the 2016 Special Session, would result in a reduction in HWJTC claims once the backlog of claims and protests cleared TRD's Legal Services Bureau and the courts. Based on the best available data and analysis to date, TRD estimates that the dollar amounts of HWJTC claims will continue to decrease. Table 7 reflects the amount of HWJTC paid in comparison to TRD's expectations conveyed to the CREG in December 2016. It also contains TRD's current expectation for HWJTC claims in FY18.

Table 7
High Wage Jobs Tax Credit Claims
(Millions of Dollars)

FY	TRD Forecast	Actual
2015	$67	$65.8
2016	$70	$58.2
2017	$10	$10
2018	$10	N/A

Special Note on the Decision and Order No. 16-16

In May 2016, the Administrative Hearing Office (AHO) held that hospitals are eligible to claim the medical services deduction under § 7-9-93, NMSA 1978 contrary to a TRD regulation, which prohibits licensed hospitals, hospices, nursing homes, outpatient, or intermediate care facilities under the Public Health Act from claiming the deduction. The AHO reasoned that the deduction under § 7-9-93 applies based on the nature of the payor, not the nature of the providing facility, as long as the services are within the providing facilities' scope of practice. The AHO ruled that the department did not have authority to limit the applicability of the deduction by regulation.

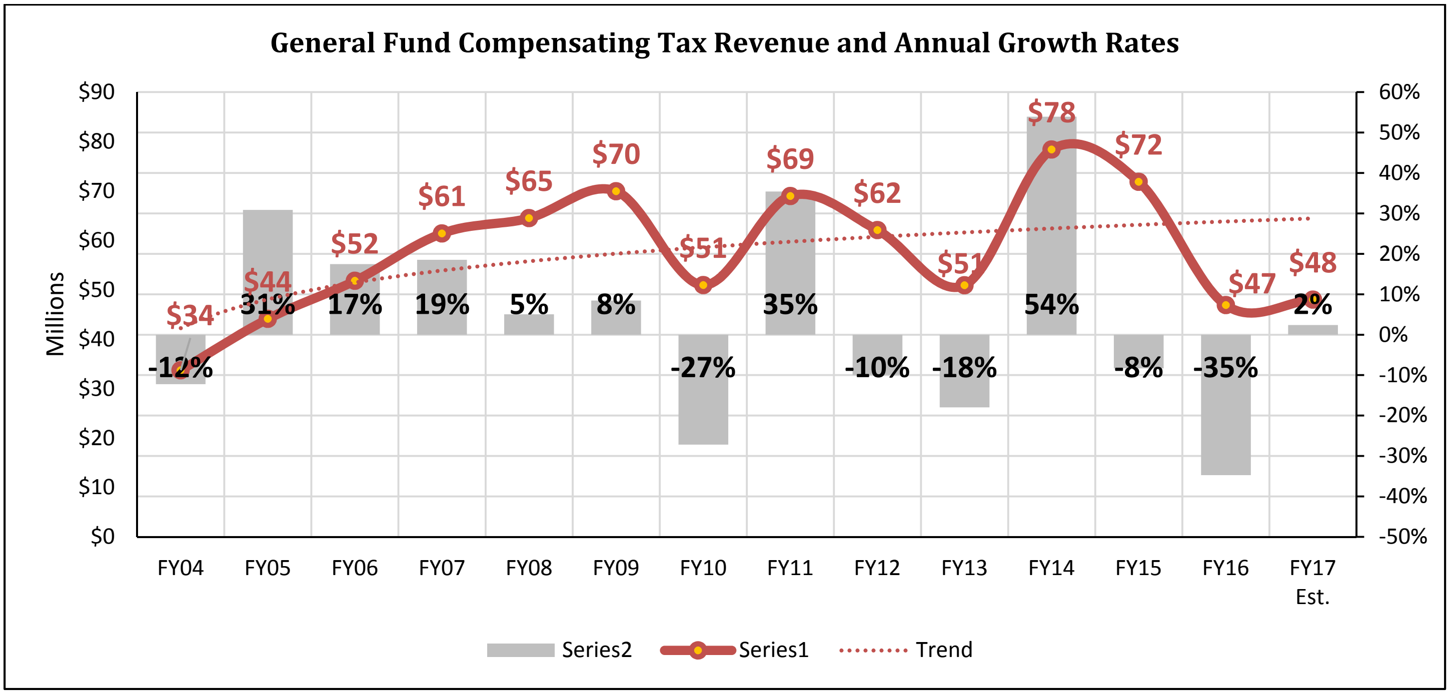
Based on actual taxpayer information from submitted amended returns claiming this deduction, there was a reduction of $10 million of GRT revenue to the general fund. However, this does not significantly impact the net distributions to the local governments. The local government reduction in GRT is mostly offset by an increase in the hold-harmless distribution because of the increase in the health care services deduction by qualifying hospitals.

Compensating Taxes (Comp Tax)

The increasing volatility of this revenue source over the past several years continues to make it difficult to forecast. Compensating Tax fluctuations have increased in frequency and magnitude, as there has not been a back-to-back growth year since FY09. Figure 7 shows preliminary actual FY17 Comp Tax revenue collections of approximately $48 million or about a 2.3% increase from FY16. It also shows estimated revenue collections of $53 million in FY18 (10% increase from FY17) based on stronger-than-anticipated monthly revenues received through May 2017.

The Mining and Extractive industry (MEI) has made significant investments in the state over the past few years, contributing to increases in total Comp Tax in FY15, a record year. However, the contribution to Comp Tax from MEI activity has fluctuated over the years with no apparent correlation between crude prices and revenue collections.

Figure 7: Compensating Tax Revenue and Annual Growth Rates



Personal Income Taxes (PIT)

Personal Income Taxes revenue collections declined by 3.2% from FY16 to FY17, and the current forecast suggests that FY18 and FY19 growth will be 2.0% and 1.2%, respectively. Table 8 illustrates the CREG PIT forecast.

Table 8
August 2017 CREG PIT Summary
(Millions of Dollars)

	FY17	FY18	FY19
December 2016 Estimate	$1,331	$1,346	$1,370
August 2017 Revisions	$ (46)	$ (36)	$ (44)
August 2017 Consensus	$ 1,285	$ 1,310	$ 1,326
Annual Change, Dollars	$ (42)	$ 25	$ 16
Annual Change, Percent	-3.2%	2.0%	1.2%

PIT is lower due to significant high wage job losses in the extraction industries. Collections from all PIT sources were down in FY17. Sources include Income Tax Withholding, Oil and Gas Remitter Withholding, and Pass-Thru Entity Withholding. On average, approximately 40% of PIT tax filers will not have a New Mexico tax liability; transfer payments (such as Low-Income Comprehensive Tax Rebate, New Mexico Low- and Middle- Income Tax Exemption, and the Working Families Tax Credit) and refunds to this group average 2.4 times the taxes paid. Tax is paid by the remaining 60% of PIT tax filers.

PIT revenue projections are broadly affected by personal income growth. While this economic indicator is generally positive and bullish, transfer payments are an integral component of this growth rate. Personal income growth was revised down from the December forecast contributing to part of the downward revisions in PIT. Transfer payments include items such as retirement/pensions, social security benefits, and Medicaid. Consequently, if transfer payments—due to the growth of social security and Medicaid—become a larger component of personal income growth, two impacts are realized in PIT: 1) the tax base shrinks, most easily identified as lower CRS withholding; and 2) refunds may increase due to the increase in transfer payments. While this has not been confirmed, it is a continued area of focus for TRD economists.

Corporate Income Taxes (CIT)

As reported in December, New Mexico's CIT performance follows that of other major oil and natural gas producing states. CIT revenue collections are down significantly. The economic forecast models project CIT revenues to be flat, but that is inconsistent with current reality. Table 9 illustrates the CREG CIT forecast. Due to continuing weak revenue collections, FY17 revenues were revised down by $20 million from the December forecast; therefore, all forecast years were revised down.

Table 9
August 2017 CREG CIT Summary
(Millions of Dollars)

	FY17	FY18	FY19
December 2016 Estimate	$70	$100	$93
August 2017 Revisions	($20)	($30)	($19)
August 2017 Consensus	$50	$70	$74
Annual Change, Dollars	($69)	$20	$4
Annual Change, Percent	-57.8%	40.0%	6.0%

TRD is testing several hypotheses to explain the severe decline in CIT revenues. TRD has ruled out the hypothesis that tax credits have contributed to the decline in CIT revenues. The 5-year average for non-refundable tax credits is approximately $10.1 million. The dollar amount has varied from $3.4 million to $27.2 million.

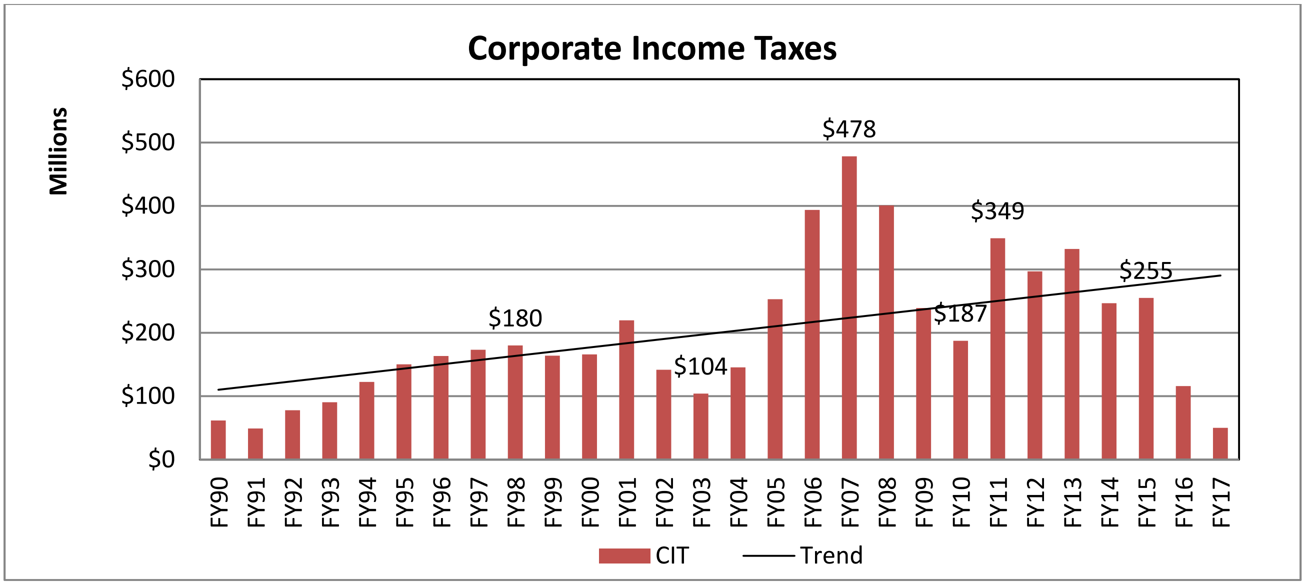
Annual CIT tax liabilities have grown nominally over the last five years with net CIT tax year receivables averaging approximately $280 million per tax year (TY). Only about 23% of CIT taxpayers have filed returns for TY2016. TRD expects the TY16 total to increase as it is normal for late filers to owe tax.

The CIT rate reduction and the expansion of apportionment elections contribute to a lower aggregate tax liability; however, TRD determined that neither the CIT rate reduction nor the special apportionment elections are explanatory for the current state of CIT revenue collections. These effects have already been accounted for in prior forecasts. Of the approximately 20,500 CIT taxpayers, twenty-two firms made the special apportionment election and five made the headquarters election in TY2015.

Due to the mechanics of the CIT program, CIT final settlements extend across at least two, and likely more than two, fiscal years. For example, TY16 liabilities should be settled during FY17 when TY16 returns are due (in April). However, a taxpayer may request an extension, delaying final settlement until October— which is FY18. Additional extensions, amended returns, required amended returns after IRS adjustments, and taxpayer inaction or nonfeasance stretches the collection period further.

As discussed in December, overpayments of tax liabilities continue to be investigated. Prior to and during the financial crisis and Great Recession (12/2007 through 06/2009) New Mexico collected significant CIT revenues (see figure 8). However, the actual tax due from taxpayers for the corresponding tax years was significantly less than that collected. Beginning in FY14, TRD noticed an increase in the number and dollar amounts of refunds due to overpayment. Such overpayment carry forwards are equivalent to pre-paid taxes. Thus, a taxpayer with a credit balance has an accounting offset to a current tax year income tax liability. TRD continues investigating why total overpayments have increased as CIT liability has increased. Corporate taxpayers make estimated payments based on their prior year tax liability. Therefore, if the taxpayer's taxable income declines, then their estimated payments likely exceed their liability. If the taxpayer previously overpaid, then the effect of overpayments is amplified. Overpayments carry forwards are potentially in the tens of millions dollars and are a significant risk to the forecast if taxpayers choose to request a refund of their overpayments.

Figure 8: Corporate Income Tax Collections



Insurance Premiums Tax

The insurance premiums tax revenue in FY17 is forecasted at $227 million. The forecasts in FY18 and FY19 have been adjusted downward by $3.5 million and $6.7 million. The downward revisions for insurance in FY18 – FY21 were due to slightly lower growth estimates in the insured populations from Medicaid.

Tribal Revenue Sharing

The tribal revenue in FY17 is forecast at $61.4 million. Pojoaque, which had been operating without a signed compact for the last two fiscal years, recently signed the 2015 tribal compact. The state is in the process of finalizing the approval process for the final 2015 compact. The forecasts have been adjusted upward accordingly, which contributes approximately $5.5 million annually to the forecast. In FY18 the CREG has assumed that Pojoaque will begin paying in the second quarter of FY18. No assumption is made about the amounts owed for FY16, FY17, and the first quarter of FY18 pending negotiation with the State.

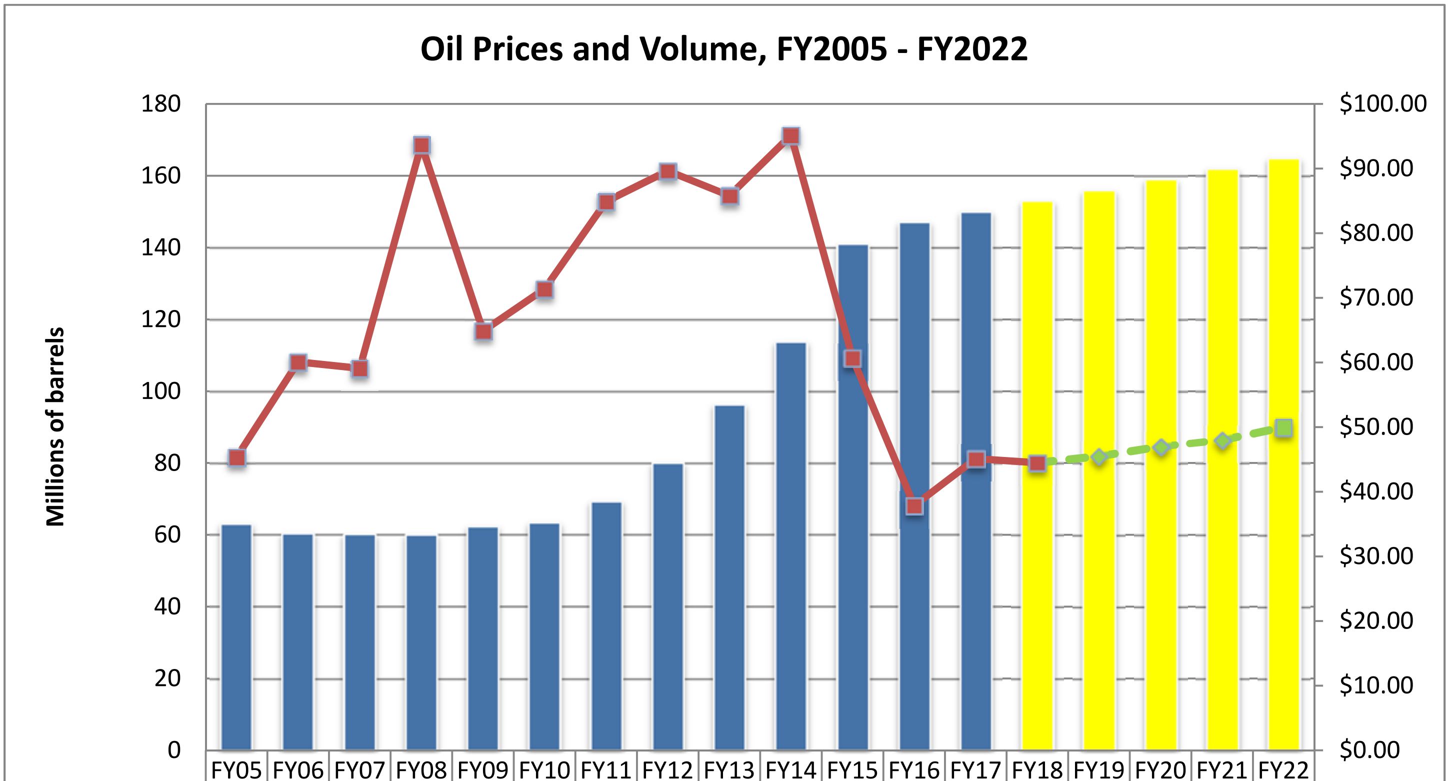
Federal Mineral Leasing Royalties (FML)

The FY17 estimated revenue from FML is $435 million, $15 million higher than the CREG December 2016 forecast of $420 million. Final payment for the lease sale in the fall of 2016 came into the General Fund in May 2017 and represented the highest bonus payment the state has ever received. The bonus payment coupled with higher oil and gas volumes and prices have led to a strong year in FML revenue. Despite the strong FY17 revenue, the CREG forecast has lowered the estimates for the out years compared to the December 2016 forecast. This is due to lower oil prices in the forecast and a return to lower yearly bonus payments.

Severance Taxes

As shown in Table 3 the CREG revised energy-related revenues up from the December forecast for FY17 through FY19, which include Severance Taxes. The slightly stronger Severance Tax forecast largely relates to higher oil and natural gas volumes than previously forecasted in December, even though oil prices are revised slightly down. The expectation of slightly positive oil production and flat growth in natural gas production provides a sustainable base-level of production through the forecast period.

Figure 9: Oil Prices and Volume



	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Volume	63	60	60	60	62	63	69	80	96	114	141	147	150	153	156	159	162	165
Price	$45.	$60.	$59.	$93.	$64.	$71.	$84.	$89.	$85.	$95.	$60.	$37.	$45.	$44.	$45.	$47.	$48.	$50.

Natural Resource Extractive Sectors

Oil production in FY17 is estimated to reach 150.0 million barrels—a 2.2% increase over FY16 levels. This represents continued year-over-year positive growth which the CREG forecasts to continue through FY22. Oil production volumes in FY18 are forecasted to reach 153.0 million barrels.

While the estimated average oil price per barrel in FY17 of $45.10 exceeds the December 2016 forecast of $43, average oil price per barrel is lowered for all out years in the forecast. FY18 oil price per barrel is forecasted at

$44.5 versus $48 for FY18 in the December 2016 forecast. The forecast then estimates slow growth in prices, reaching $50 a barrel in FY22.

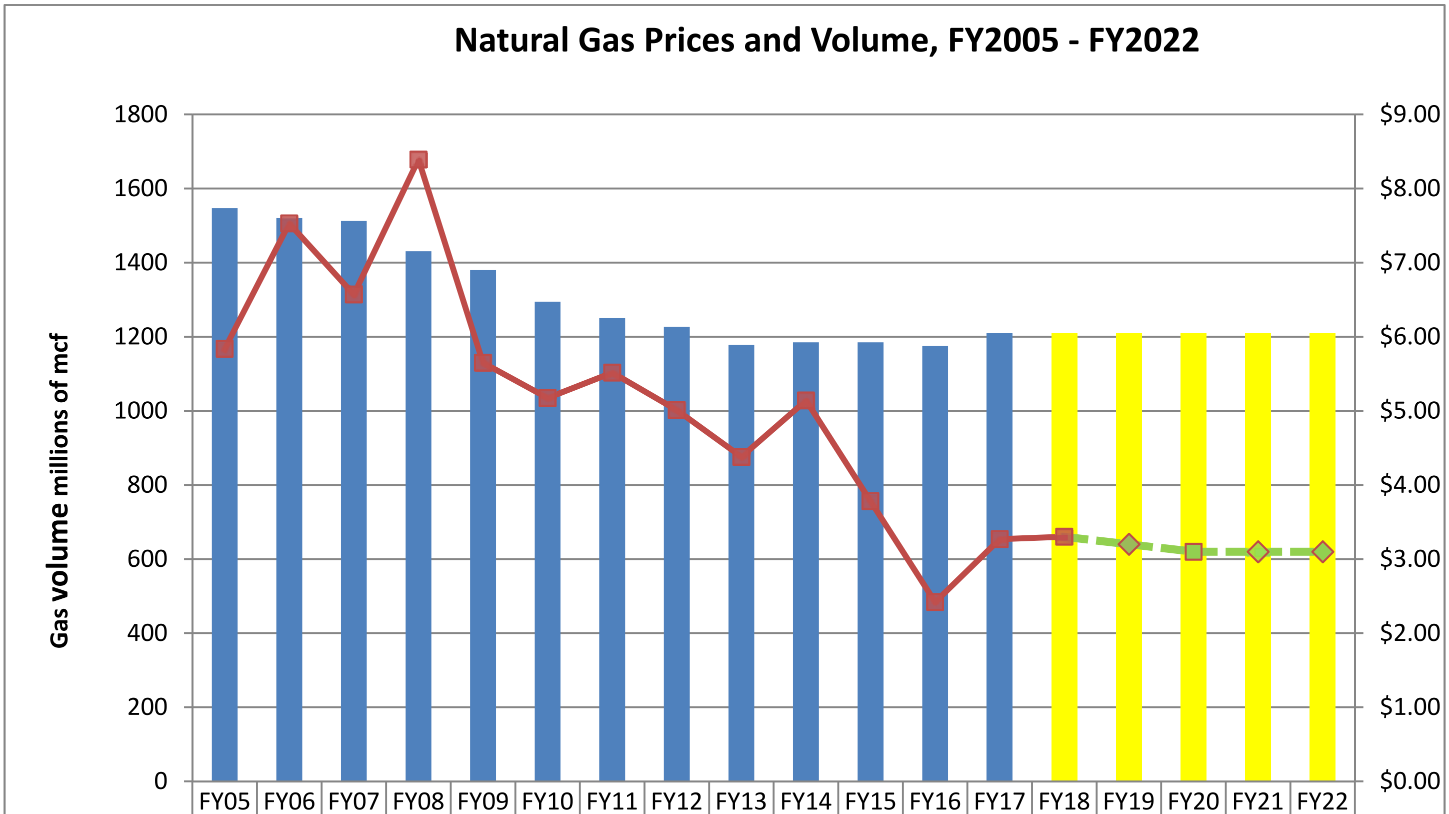
Despite fairly flat expected prices per barrel of oil in the near term, increased production is explained by improved cost efficiencies per oil well in the Permian basin and high corporate investment in the region. These factors make it profitable to continue drilling at high volumes and also necessary as companies recoup the capital costs to establish wells.

New Mexico's natural gas production declines over time, as seen in Figure 10. Natural gas production has historically been led by production in the San Juan basin but production has slowly decreased since 2007 year over year. Around 2012, production in the Permian basin started increasing month over month counteracting the decrease in the San Juan. Despite the increased production in the Permian basin, statewide production still showed declines through FY16.

The CREG estimates FY17 to have a total production level of 1,210 billion cubic feet—a 3% increase over FY16 production levels and the first increase since FY14. The increase is led by the Permian basin, which surpassed San Juan monthly production levels at the end of 2016. The CREG forecasts that production levels will remain flat through the end of the forecast period. New Mexico's proximity to Mexico—which has had increasing natural gas demand fueled by electric power generation, industrial demand, and growth of pipeline access—supports higher production volumes.

Natural gas prices are estimated to average $3.27 for FY17, $0.12 above the December 2016 forecast. The CREG forecast expects $3.30 for FY18 and then a decline to $3.20 in FY19 and then to $3.10 through the end of the forecast period.

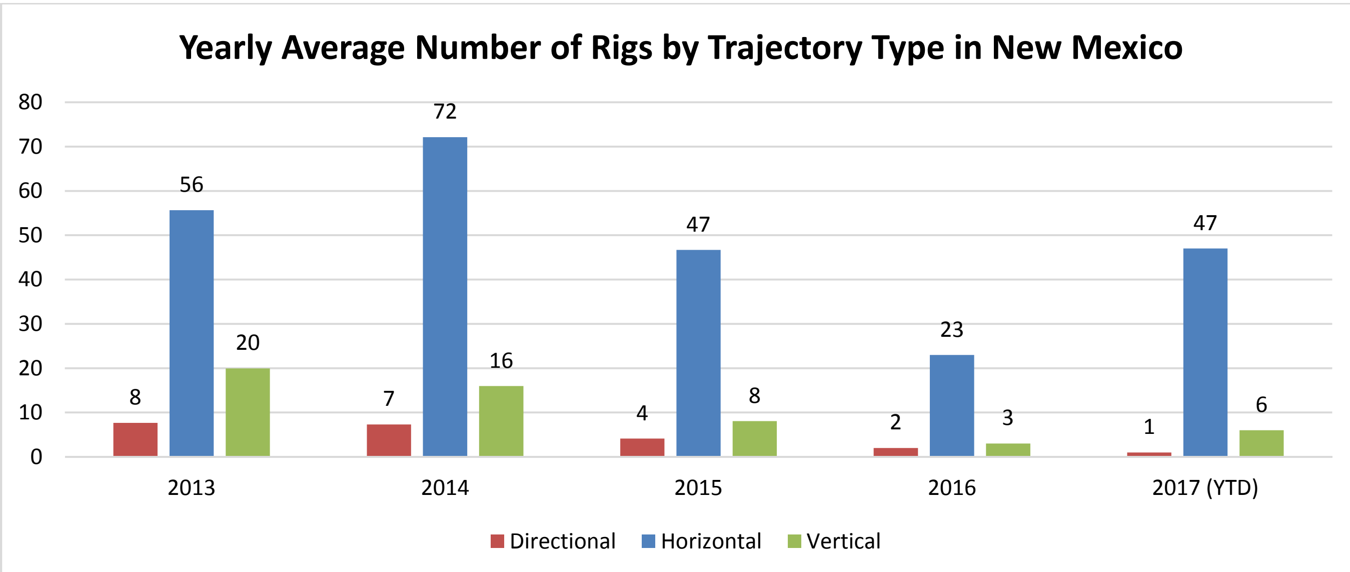
Figure 10: Natural Gas Prices and Volume



	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Volume	1547	1520	1513	1431	1380	1295	1250	1227	1178	1185	1185	1175	1210	1210	1210	1210	1210	1210
Price	$5.84	$7.53	$6.57	$8.39	$5.65	$5.17	$5.51	$5.01	$4.38	$5.14	$3.78	$2.42	$3.27	$3.30	$3.20	$3.10	$3.10	$3.10

Current average rig counts for 2017 year to date as seen in Figure 11 show increasing activity in New Mexico reversing the three year decreasing trend from 2014. Horizontal wells continue to be the majority of new wells being drilled. The increased rig count in 2017 supports the CREG forecasts of increasing production in oil and stable production in natural gas.

Figure 11: Yearly Average Number of Drilling Rigs by Trajectory Type



Additional Risks to the Forecast

In FY15 and FY16 TRD increased its audit efforts. These efforts resulted in additional revenues being collected in most of the major tax programs including GRT, compensating tax, and PIT. TRD is continued these efforts in FY17 but due to lower staffing resources assessments declined slightly.

Pojoaque signed the standard 2015 Compact in August 2017. If the compact is not finalized the general fund would lose $5.5 million per year. Presuming Pojoaque returns to the state the revenue for fiscal years 2016, 2017 and 2018 the state would receive an additional $12 million that has not been included in the forecast.

There are both upside and downside risks for oil production and oil prices. Current total US production of oil is strong and crude oil stocks have had higher inventory levels than the past five-year average. Previous reports of high inventories sent West Text Intermediate prices down in March 2017. As the Organization of the Petroleum Exporting Countries (OPEC) maintains agreed upon production levels, US production is helping to meet growing demand in China and India. Any change from OPEC, could impact world supply and prices.

General Fund Consensus Revenue Estimate August 2017

Appendix 1

Revenue Source	FY17					FY18					FY19				
	Dec 2016 Est.	Aug 2017 Est.	Change from Prior	% Change from FY16	$ Change from FY16	Dec 2016 Est.	Aug 2017 Est.	Change from Prior	% Change from FY17	$ Change from FY17	Dec 2016 Est.	Aug 2017 Est.	Change from Prior	% Change from FY18	$ Change from FY18
Base Gross Receipts Tax	n/a	2,122.0	n/a	-0.3%	(6.7)	n/a	2,241.7	n/a	5.6%	119.7	n/a	2,289.5	n/a	2.1%	47.8
60-Day Money & Other Credits	n/a	19.7	n/a	n/a	41.0	n/a	(50.0)	n/a	n/a	(69.7)	n/a	(50.0)	n/a	0.0%	-
F&M Hold Harmless Payments	n/a	(121.7)	n/a	n/a	10.3	n/a	(118.8)	n/a	-2.4%	2.9	n/a	(115.2)	n/a	-3.0%	3.6
NET Gross Receipts Tax	1,868.6	2,020.0	151.4	2.3%	44.6	2,007.9	2,072.9	65.0	2.6%	52.9	2,103.8	2,124.3	20.5	2.5%	51.4
Compensating Tax	50.0	48.0	(2.1)	2.3%	1.1	53.5	52.8	(0.8)	10.0%	4.8	57.8	54.1	(3.7)	2.5%	1.3
TOTAL GENERAL SALES	1,918.6	2,068.0	149.4	2.3%	45.7	2,061.4	2,125.7	64.2	2.8%	57.7	2,161.6	2,178.4	16.8	2.5%	52.7
Tobacco Taxes	75.0	78.3	3.3	-1.9%	(1.5)	74.5	76.9	2.4	-1.8%	(1.4)	74.0	75.1	1.1	-2.3%	(1.8)
Liquor Excise	6.9	6.4	(0.5)	-4.9%	(0.3)	26.1	24.6	(1.5)	284.4%	18.2	28.9	26.5	(2.4)	7.7%	1.9
Insurance Taxes	229.2	227.0	(2.2)	9.2%	19.1	238.6	235.1	(3.5)	3.6%	8.1	252.9	246.2	(6.7)	4.7%	11.1
Fire Protection Fund Reversion	15.5	15.9	0.4	5.5%	0.8	15.9	16.4	0.5	3.1%	0.5	16.4	16.8	0.4	2.4%	0.4
Motor Vehicle Excise	142.5	144.7	2.2	-3.8%	(5.7)	147.5	151.3	3.8	4.6%	6.6	153.0	155.9	2.9	3.0%	4.6
Gaming Excise	58.5	59.2	0.7	-6.1%	(3.9)	58.0	59.2	1.2	0.0%	0.0	58.0	58.4	0.4	-1.4%	(0.8)
Leased Vehicle & Other	7.6	7.5	(0.1)	-12.1%	(1.0)	7.6	7.7	0.1	3.1%	0.2	7.6	7.7	0.1	0.0%	-
TOTAL SELECTIVE SALES	535.2	539.0	3.8	0.4%	2.0	568.2	571.2	3.0	6.0%	32.2	590.8	586.6	(4.2)	2.7%	15.4
Personal Income Tax	1,331.0	1,285.0	(46.0)	-3.2%	(42.2)	1,346.0	1,310.1	(35.9)	2.0%	25.1	1,370.0	1,325.8	(44.2)	1.2%	15.7
Corporate Income Tax	70.0	50.0	(20.0)	-57.8%	(68.5)	100.0	70.0	(30.0)	40.0%	20.0	93.0	74.2	(18.8)	6.0%	4.2
TOTAL INCOME TAXES	1,401.0	1,335.0	(66.0)	-7.7%	(110.7)	1,446.0	1,380.1	(65.9)	3.4%	45.1	1,463.0	1,400.0	(63.0)	1.4%	19.9
Oil and Gas School Tax	273.3	302.9	29.6	27.9%	66.1	295.9	305.3	9.4	0.8%	2.4	299.1	309.4	10.3	1.3%	4.1
Oil Conservation Tax	14.3	15.6	1.3	37.5%	4.3	15.5	15.8	0.3	0.7%	0.1	15.7	16.0	0.3	1.7%	0.3
Resources Excise Tax	13.0	9.7	(3.3)	-13.4%	(1.5)	13.0	10.0	(3.0)	3.1%	0.3	13.0	10.0	(3.0)	0.0%	-
Natural Gas Processors Tax	10.0	10.3	0.3	-49.4%	(10.1)	10.9	10.0	(0.9)	-2.9%	(0.3)	12.9	16.5	3.6	65.0%	6.5
TOTAL SEVERANCE TAXES	310.6	338.6	28.0	21.0%	58.8	335.3	341.1	5.8	0.7%	2.5	340.7	351.9	11.2	3.2%	10.9
LICENSE FEES	55.8	55.1	(0.7)	0.5%	0.3	56.9	56.0	(0.8)	1.7%	0.9	58.1	57.1	(1.0)	2.0%	1.1
LGPF Interest	540.5	541.2	0.7	-2.5%	(13.9)	580.7	584.8	4.1	8.1%	43.6	614.6	626.2	11.6	7.1%	41.4
STO Interest	-	(3.3)	(3.3)	n/a	(24.9)	19.7	11.7	(8.0)	n/a	15.0	28.0	22.3	(5.7)	90.6%	10.6
STPF Interest	200.4	200.4	-	3.6%	6.9	210.6	210.4	(0.2)	5.0%	10.0	218.4	218.6	0.2	3.9%	8.2
TOTAL INTEREST	740.9	738.3	(2.6)	-4.1%	(32.0)	811.0	806.9	(4.1)	9.3%	68.6	861.0	867.1	6.1	7.5%	60.2
Federal Mineral Leasing	420.0	435.6	15.6	11.7%	45.6	434.0	429.4	(4.6)	-1.4%	(6.2)	435.0	431.5	(3.5)	0.5%	2.1
State Land Office	55.0	71.5	16.5	49.5%	23.7	55.0	68.8	13.8	-3.8%	(2.7)	55.0	55.0	-	-20.1%	(13.8)
TOTAL RENTS & ROYALTIES	475.0	507.1	32.1	15.8%	69.3	489.0	498.2	9.2	-1.8%	(8.9)	490.0	486.5	(3.5)	-2.3%	(11.7)
TRIBAL REVENUE SHARING	64.2	61.4	(2.8)	-4.7%	(3.0)	64.7	65.5	0.9	6.8%	4.2	67.7	73.5	5.8	12.1%	7.9
MISCELLANEOUS RECEIPTS	61.5	55.3	(6.2)	15.1%	7.3	56.7	53.9	(2.8)	-2.5%	(1.4)	59.5	56.2	(3.3)	4.1%	2.2
REVERSIONS	37.5	42.9	5.4	-23.9%	(13.5)	40.0	42.5	2.5	-0.9%	(0.4)	50.0	50.0	-	17.6%	7.5
TOTAL RECURRING	5,600.2	5,740.6	140.4	0.4%	24.1	5,929.1	5,941.1	12.0	3.5%	200.5	6,142.4	6,107.3	(35.1)	2.8%	166.2
GRAND TOTAL	5,600.2	5,740.6	140.4	0.4%	24.1	5,929.1	5,941.1	12.0	3.5%	200.5	6,142.4	6,107.3	(35.1)	2.8%	166.2

Note: Columns in blue show difference between December 2016 Consensus Revenue Estimate and August 2017 Consensus Revenue Estimate

Note: Columns in red show year-over-year growth expected in current August 2017 Consensus Revenue Estimate

General Fund Consensus Revenue Estimate August 2017

Appendix 1

Revenue Source	FY20					FY21					FY22		
	Dec 2016 Est.	Aug 2017 Est.	Change from Prior	% Change from FY19	$ Change from FY19	Dec 2016 Est.	Aug 2017 Est.	Change from Prior	% Change from FY20	$ Change from FY20	Aug 2017 Est.	% Change from FY21	$ Change from FY21
Base Gross Receipts Tax	n/a	2,369.0	n/a	3.5%	79.5	n/a	2,405.4	n/a	1.5%	36.4	2,485.5	3.3%	80.1
60-Day Money & Other Credits	n/a	(50.0)	n/a	0.0%	-	n/a	(50.0)	n/a	0.0%	-	(50.0)	0.0%	-
F&M Hold Harmless Payments	n/a	(111.4)	n/a	-3.3%	3.8	n/a	(106.7)	n/a	-4.2%	4.7	(101.4)	-5.0%	5.3
NET Gross Receipts Tax	2,209.2	2,207.6	(1.6)	3.9%	83.3	2,306.2	2,248.7	(57.5)	1.9%	41.1	2,334.1	3.8%	85.4
Compensating Tax	63.0	55.4	(7.6)	2.5%	1.4	69.3	56.8	(12.5)	2.5%	1.4	58.2	2.5%	1.4
TOTAL GENERAL SALES	2,272.2	2,263.1	(9.1)	3.9%	84.7	2,375.5	2,305.5	(69.9)	1.9%	42.4	2,402.3	4.2%	96.8
Tobacco Taxes	73.5	73.2	(0.3)	-2.5%	(1.9)	73.0	71.4	(1.6)	-2.5%	(1.8)	69.5	-2.7%	(1.9)
Liquor Excise	27.7	26.7	(1.0)	0.8%	0.2	27.7	26.7	(1.0)	0.0%	-	26.9	0.7%	0.2
Insurance Taxes	272.9	258.8	(14.1)	5.1%	12.6	293.0	279.1	(13.9)	7.8%	20.3	295.9	6.0%	16.8
Fire Protection Fund Reversion	16.8	17.3	0.5	3.0%	0.5	17.3	17.7	0.4	2.3%	0.4	18.2	2.8%	0.5
Motor Vehicle Excise	159.0	160.4	1.4	2.9%	4.5	162.0	164.9	2.9	2.8%	4.5	168.9	2.4%	4.0
Gaming Excise	58.0	57.3	(0.7)	-1.9%	(1.1)	58.0	56.3	(1.7)	-1.7%	(1.0)	55.4	-1.6%	(0.9)
Leased Vehicle & Other	7.6	7.7	0.1	0.0%	-	7.6	7.7	0.1	0.0%	-	7.6	-0.8%	(0.1)
TOTAL SELECTIVE SALES	615.5	601.4	(14.1)	2.5%	14.8	638.6	623.8	(14.8)	3.7%	22.4	642.4	3.0%	18.6
Personal Income Tax	1,399.0	1,356.3	(42.7)	2.3%	30.5	1,447.0	1,400.3	(46.7)	3.3%	44.1	1,442.4	3.0%	42.0
Corporate Income Tax	100.0	82.4	(17.6)	11.0%	8.2	108.0	83.2	(24.8)	1.0%	0.8	84.8	2.0%	1.7
TOTAL INCOME TAXES	1,499.0	1,438.6	(60.4)	2.8%	38.7	1,555.0	1,483.5	(71.5)	3.1%	44.9	1,527.2	2.9%	43.7
Oil and Gas School Tax	311.1	316.1	5.0	2.2%	6.7	322.7	324.5	1.8	2.7%	8.4	337.6	4.0%	13.1
Oil Conservation Tax	16.4	16.4	0.0	2.5%	0.4	17.0	16.9	(0.1)	2.8%	0.5	17.6	4.2%	0.7
Resources Excise Tax	13.0	10.0	(3.0)	0.0%	-	13.0	10.0	(3.0)	0.0%	-	10.0	0.0%	-
Natural Gas Processors Tax	13.0	17.5	4.5	6.1%	1.0	13.0	17.0	4.0	-2.9%	(0.5)	16.7	-1.8%	(0.3)
TOTAL SEVERANCE TAXES	353.5	360.0	6.5	2.3%	8.1	365.7	368.4	2.7	2.3%	8.4	381.9	3.7%	13.5
LICENSE FEES	59.6	58.4	(1.2)	2.3%	1.3	61.3	59.9	(1.4)	2.5%	1.5	61.6	2.9%	1.7
LGPF Interest	639.6	658.6	19.0	5.2%	32.4	662.9	689.1	26.2	4.6%	30.5	728.3	5.7%	39.2
STO Interest	38.5	34.6	(3.9)	55.2%	12.3	45.3	43.0	(2.3)	24.3%	8.4	50.6	17.7%	7.6
STPF Interest	223.7	224.0	0.3	2.5%	5.4	228.3	228.3	-	1.9%	4.3	235.4	3.1%	7.1
TOTAL INTEREST	901.8	917.2	15.4	5.8%	50.1	936.5	960.4	23.9	4.7%	43.2	1,014.3	5.6%	53.9
Federal Mineral Leasing	445.0	436.8	(8.2)	1.2%	5.3	457.0	445.0	(12.0)	1.9%	8.2	458.6	3.1%	13.6
State Land Office	55.0	55.1	0.1	0.2%	0.1	55.0	55.2	0.2	0.2%	0.1	55.5	0.5%	0.3
TOTAL RENTS & ROYALTIES	500.0	491.9	(8.1)	1.1%	5.4	512.0	500.2	(11.8)	1.7%	8.3	514.1	2.8%	13.9
TRIBAL REVENUE SHARING	68.2	75.1	6.8	2.2%	1.6	69.2	76.7	7.5	2.2%	1.7	78.7	2.5%	1.9
MISCELLANEOUS RECEIPTS	62.9	58.7	(4.2)	4.5%	2.5	66.6	62.2	(4.4)	6.0%	3.5	65.7	5.6%	3.5
REVERSIONS	50.0	50.0	-	0.0%	-	50.0	50.0	-	0.0%	-	50.0	0.0%	-
TOTAL RECURRING	6,382.7	6,314.4	(68.3)	3.4%	207.1	6,630.3	6,490.7	(139.7)	2.8%	176.3	6,738.2	3.8%	247.6
GRAND TOTAL	6,382.7	6,314.4	(68.3)	3.4%	207.1	6,630.3	6,490.7	(139.7)	2.8%	176.3	6,738.2	3.8%	247.6

Note: Columns in blue show difference between December 2016 Consensus Revenue Estimate and August 2017 Consensus Revenue Estimat

Note: Columns in red show year-over-year growth expected in current August 2017 Consensus Revenue Estimate

U.S. and New Mexico Economic Indicators

Appendix 2

		FY16	FY17		FY18		FY19		FY20		FY21		FY22
		Dec 16 Forecast	Dec 16 Forecast	Aug 17 Forecast	Dec 16 Forecast	Aug 17 Forecast	Dec 16 Forecast	Aug 17 Forecast	Dec 16 Forecast	Aug 17 Forecast	Dec 16 Forecast	Aug 17 Forecast	Aug 17 Forecast
	National Economic Indicators												
GI	US Real GDP Growth (annual avg. ,% YOY)*	1.7	2.0	2.0	2.2	2.6	2.2	2.6	2.1	2.0	2.1	2.3	2.2
Moody's	US Real GDP Growth (annual avg. ,% YOY)*	1.7	2.3	2.1	2.9	2.7	2.4	2.5	2.0	1.7	1.9	1.6	1.7
GI	US Inflation Rate (CPI-U, annual avg., % YOY)**	0.7	1.9	1.9	2.5	1.6	2.4	1.8	2.4	2.6	2.5	2.8	2.6
Moody's	US Inflation Rate (CPI-U, annual avg., % YOY)**	0.7	1.8	1.9	2.7	1.9	2.7	2.6	2.7	2.9	2.4	2.6	1.8
GI	Federal Funds Rate (%)	0.30	0.60	0.60	1.10	1.40	1.90	2.20	2.70	2.90	2.80	3.00	3.00
Moody's	Federal Funds Rate (%)	0.26	0.58	0.63	1.39	1.37	2.44	2.67	3.24	3.73	3.29	3.53	3.21
	New Mexico Labor Market and Income Data												
BBER	NM Non-Agricultural Employment Growth	0.5	0.7	0.2	1.2	0.9	1.4	1.1	1.5	1.3	1.2	1.3	1.2
Moody's	NM Non-Agricultural Employment Growth	0.4	0.0	0.6	1.0	0.9	1.1	1.0	1.2	0.8	0.6	0.3	0.4
BBER	NM Nominal Personal Income Growth (%)***	3.5	2.4	1.8	3.6	2.5	4.5	3.5	4.7	4.2	4.6	4.5	4.7
Moody's	NM Nominal Personal Income Growth (%)***	3.5	1.7	1.7	1.4	2.5	2.6	3.7	3.9	3.7	3.8	3.5	4.0
BBER	NM Total Wages & Salaries Growth (%)	1.2	2.4	1.3	4.0	2.7	4.2	3.4	4.4	3.8	4.3	4.2	4.5
Moody's	NM Total Wages & Salaries Growth (%)	1.2	0.7	1.1	2.6	1.8	3.5	3.5	4.3	4.2	3.1	2.7	1.8
BBER	NM Private Wages & Salaries Growth (%)	1.2	3.0	1.3	4.9	3.3	5.0	4.3	5.1	4.4	4.9	4.7	5.0
BBER	NM Real Gross State Product (% YOY)	-0.5	0.4	-0.2	2.3	0.8	2.3	1.7	2.2	2.3	2.4	2.4	2.2
Moody's	NM Real Gross State Product (% YOY)	-0.6	0.6	0.1	1.7	1.3	1.5	1.7	1.7	1.3	1.7	1.4	1.6
CREG	NM Oil Price ($/barrel)	$37.85	$43.00	$45.10	$48.00	$44.50	$50.00	$45.50	$53.00	$47.00	$56.00	$48.00	$50.00
CREG	NM Taxable Oil Volumes (million barrels)	146.7	143.0	150.0	143.0	153.0	143.0	156.0	143.0	159.0	143.0	162.0	165.0
	NM Taxable Oil Volumes (%YOY growth)	3.7%	-2.5%	2.2%	0.0%	2.0%	0.0%	2.0%	0.0%	1.9%	0.0%	1.9%	1.9%
CREG	NM Gas Price ($ per thousand cubic feet)****	$2.42	$3.15	$3.27	$3.31	$3.30	$3.26	$3.20	$3.35	$3.10	$3.45	$3.10	$3.10
CREG	NM Taxable Gas Volumes (billion cubic feet)	1,175	1,144	1,210	1,108	1,210	1,075	1,210	1,044	1,210	1,008	1,210	1,210
	NM Taxable Gas Volumes (%YOY growth)	-0.8%	-2.6%	3.0%	-3.1%	0.0%	-3.0%	0.0%	-2.9%	0.0%	-3.4%	0.0%	0.0%

LFC, TRD Notes
* Real GDP is BEA chained 2009 dollars, billions, annual rate
** CPI is all urban, BLS 1982-84=1.00 base
***Nominal Personal Income growth rates are for the calendar year in which each fiscal year begins
Sources: BBER - July 2017 FOR-UNM baseline. Global Insight - July 2017 baseline.

DFA Notes
* Real GDP is BEA chained 2005 dollars, billions, annual rate
** CPI is all urban, BLS 1982-84=1.00 base.
***Nominal Personal Income growth rates are for the calendar year in which each fiscal year begins
*****The gas prices are estimated using a formula of NYMEX, EIA, and Moodys (July) future prices as well as a liquid premium based on oil price forecast
Sources: July 2017 Moody's economy.com baseline