LFC Hearing Brief

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

AGENCY: Consensus Revenue Estimating Group

DATE: December 10, 2018

PURPOSE OF HEARING: General fund consensus revenue estimate

PREPARED BY: Jon Clark, Chief Economist, and Dawn Iglesias, Economist

EXPECTED OUTCOME: Informational

BACKGROUND INFORMATION

The Consensus Revenue Estimating Group (CREG), comprised of the Legislative Finance Committee (LFC), Department of Finance and Administration (DFA), Taxation and Revenue Department (TRD), and Department of Transportation (DOT), reached consensus on the revenue estimates presented in this brief. The table below presents a reconciliation of recurring revenues through the current revenue estimating cycle.

December 2018 Consensus General Fund Recurring Revenue Outlook
(in millions of dollars)

	FY18	FY19	FY20	FY21
August 2018 Consensus	$6,743.2	$7,279.4	$7,501.3	$7,740.0
December 2018 Adjustments	$73.3	$310.6	-$68.2	-$71.3
December 2018 Consensus	$6,816.5	$7,590.0	$7,433.1	$7,668.7
Annual amount change	$930.6	$773.5	-$156.9	$235.6
Annual percent change	15.8%	11.3%	-2.1%	3.2%

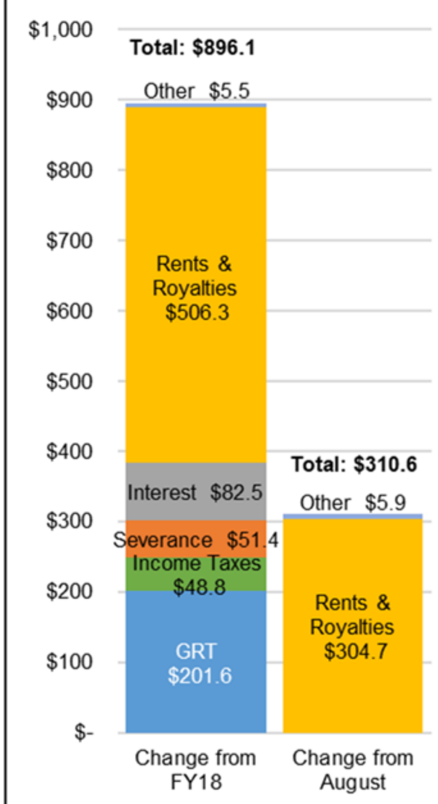
Summary

Recurring revenues for FY19 are estimated at $7.6 billion, an increase of $773.5 million, or 11.3 percent, from FY18. Recurring revenues for FY20 are estimated at $7.4 billion, a decline of $157 million, or 2.1 percent, from FY19. "New money," defined as projected recurring revenues for the following fiscal year less current year recurring appropriations, is estimated at $1.1 billion for FY20, or 17 percent growth from the FY19 recurring budget level.

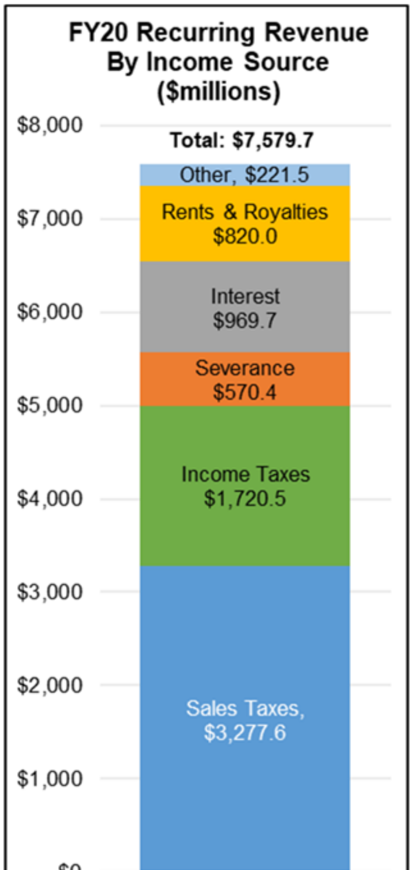
In the August revenue forecast, CREG first announced the magnitude of this incredible revenue surge and reported a significant portion was related to oil industry activity. In this forecast, although FY20 estimated revenues are down slightly, FY19 revenues are much higher, and nearly all the growth is from this one industry and related impacts. Of the $896 million projected growth in recurring revenues from FY18 to FY19, about $715 million, or 80 percent, is related directly to the oil and gas industry through severance taxes, rents and royalties, and gross receipts taxes.

Revenues could rapidly decline not only if the oil industry experiences significant negative shocks, but also if growth simply slows more than projected. Combined with growing concerns about a possible impending recession, the state should proceed with caution in crafting a budget. Fiscally prudent spending options promoted by LFC would help shield against potential shortfalls while still providing significant additional funding for recurring and nonrecurring needs. The revenue increase projected for FY19, minus any additional appropriations for the remainder of the fiscal year, would flow into reserves and create a significant buffer against possible sharp revenue declines and protect against growing, severe revenue volatility.

FY19 Recurring Revenue Changes, By Income Source (in millions)



Note: Severance tax amounts include general fund revenue and school tax distributions to the tax stabilization reserve in excess of the five-year average



Note: Severance tax amounts include general fund revenue and school tax distributions to the tax stabilization reserve in excess of the five-year average

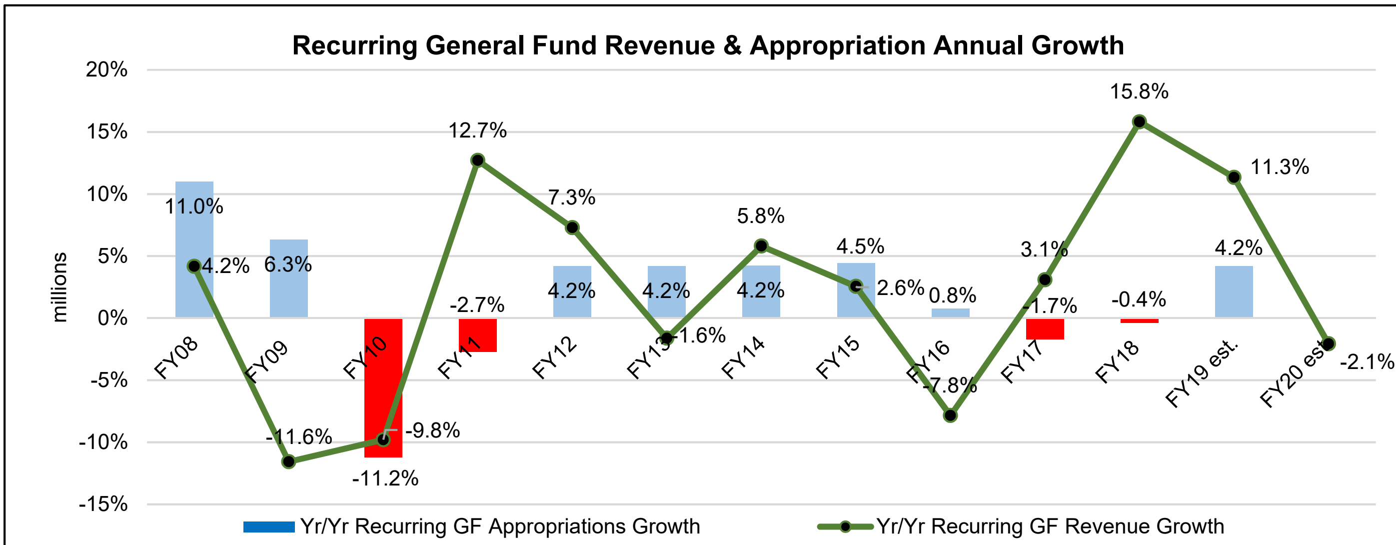
While the various forecast risks cannot be reasonably accounted for within the revenue estimates – including an energy industry crash (see *Stress Test* section on page 4), recession, taxpayer protests, and local government lawsuits (see *Forecast Risks* section on page 10) – the Legislature can prepare for these risks by creating adequate reserves. For example, if each of the forecast risks materialized at once, the total losses to the general fund could be as high as $2 billion. Therefore, LFC economists recommend retaining a minimum of 20 percent reserves. If the Legislature continues its recent unwinding of replacing general fund with other state funds and begins to replenish those funds, it would provide another type of buffer against future revenue shortfalls.

Revenue and Budget History

Recurring general fund revenues surged in FY18, growing by 15.8 percent, a growth rate New Mexico has not seen in more than a decade. The last time the state experienced such strong growth was in FY05, with a similar gain of 14.6 percent, another year in which direct energy revenues and a few other revenue sources spiked. Very similar to this forecast for the next several years, FY05 was succeeded by another year of strong revenues but with a slightly lower growth rate and then by two years of modest growth between 3 percent and 4 percent. However, revenues dropped precipitously in FY09 and FY10, declining by 11.6 percent and 9.8 percent, respectively, as shown in the graph below.

Unfortunately, recurring budgets were built to incorporate a significant portion of this two-year spike in revenues, with general fund appropriation increases of 11 percent in FY08 and 6.3 percent in FY09. To maintain solvency, the state was forced to slash general fund budgets by 11.2 percent in FY10.

LFC recognizes the parallels between this historical revenue swing and current revenue growth. The committee adopted budget guidelines for FY20 to implement the lessons learned a decade ago, promoting higher reserves and using a significant portion of the new money for nonrecurring needs instead of building it all into recurring budget increases. To illustrate the importance of fiscal caution, the first page of the budget guidelines shows the graph below with growth and declines in recurring revenues and appropriations since FY08.



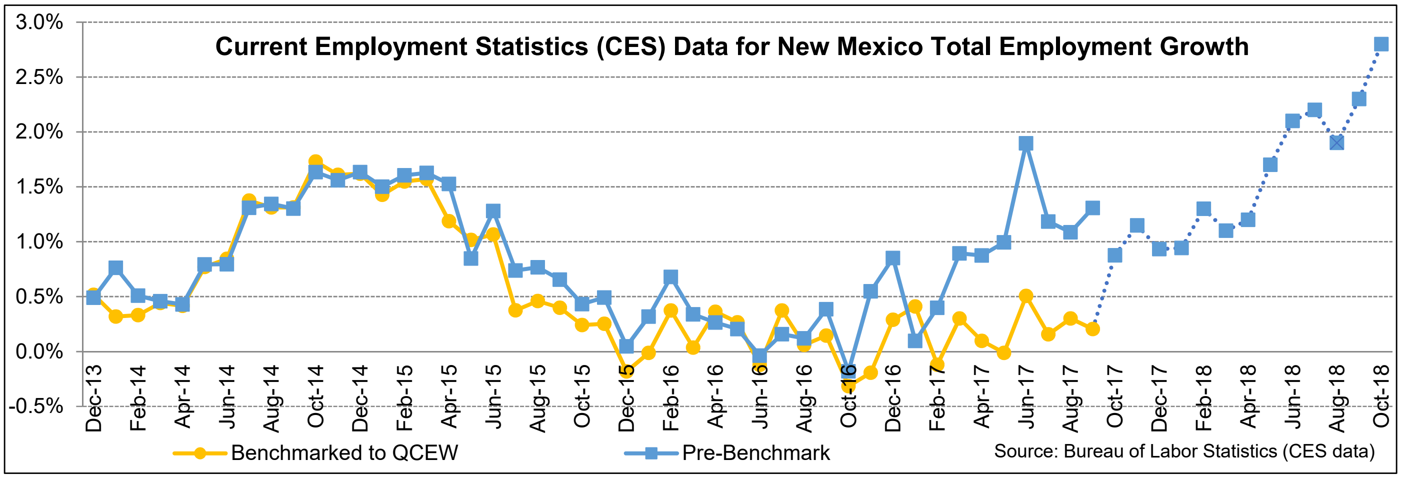
Source: LFC Files

United States and New Mexico Economic Forecast

IHS Global Insight stated 2018 is on track to be the best year for real gross domestic product (GDP) growth since 2004, driven by stimulus from the 2017 tax act and 2018 budget cuts, a still-favorable monetary policy, firm gains in employment and income, and high levels of consumer and business confidence. Growth for FY19 is projected at 3 percent; however, IHS indicates the stimulus from the tax cuts and spending increase will fade by FY20, tightening monetary policy is expected to become restrictive, the negative impact of recently enacted tariffs will accumulate, and global growth is expected to slow. For these reasons, IHS's November forecast expects US economic growth to slow in FY20 and the economy to enter into a mild "growth recession" in FY21 – meaning economic expansion continues but at a low growth rate (see *Recession Risk* discussion on page 10).

Forecasting Services

LFC economists use two different forecasting services in developing the economic assumptions on which the forecast is based, IHS Global Insight for national estimates and the University of New Mexico Bureau of Business and Economic Research (BBER) for state and local estimates. The BBER forecast also relies on the IHS national forecast. Selected economic indicators from these forecasts are presented in Attachment 6.



The state's unemployment rate is now 4.6 percent. While the current employment statistics (CES) survey shows average FY19 year-to-date employment growth at 2.3 percent, BBER's expectations for growth in New Mexico's non-agricultural employment for FY19 remain unchanged from August at 1.4 percent. This is largely because BBER's forecast uses more reliable quarterly census of employment and wages (QCEW) data, which reflects lower employment growth for New Mexico. Employment growth projections for FY20 are up slightly to 1.5 percent, with most growth expected to be in the mining, construction, transportation and warehousing, professional services, healthcare, and leisure and hospitality sectors.

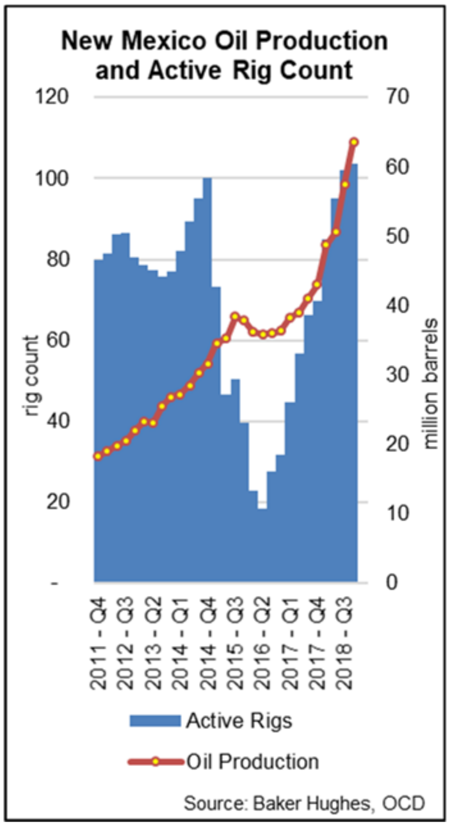
BBER expects personal incomes in New Mexico to grow 3.4 percent in FY19 and 4.3 percent in FY20, and total wages and salaries are projected to grow 4.1 percent in FY19 and 4.8 percent in FY20. BBER revised its forecast for real gross state product (GSP) growth in FY19 upward to 2.8 percent and projects GSP to grow by 2.3 percent in FY20.

Employment Data Concerns

Preliminary employment data from the CES survey suggest FY19 year-to-date employment growth for New Mexico averages 2.3 percent. However, this data is annually benchmarked against more reliable QCEW data, as shown in the chart above. Currently, QCEW data is only available through the first quarter of 2018; however, this data does not align with the growth estimated by the CES. Benchmarked data for October 2017 forward will not be available until March 2019. Both BBER and LFC economists expect CES data to be revised downward once benchmarked.

Oil and Gas Industry Impacts

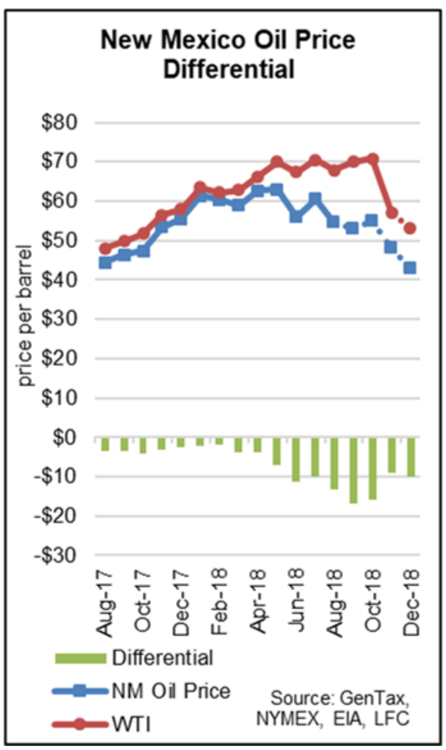
The mining sector, including oil and gas, was a significant driver of employment growth over the past six months. Eddy and Lea counties added over 2,000 jobs in the last four months, and employment levels are reaching the highs seen in late 2014. BBER identified 23 percent of the growth in New Mexico's labor force in the 12 months ending in September 2018 was in Eddy and Lea counties, which account for just 6 percent of the state's population. However, total wages and salaries in these two counties still lag behind previous peaks.



Oil prices fell nearly 30 percent since October, with West Texas Intermediate (WTI) down from $70.75 per barrel in October to an average $50.96 by the last week of November. Despite price declines, active rig counts averaged 106 in November, up from an average 101 in October. Oil production in the state continues to reach record highs (see Attachment 8), with the Energy Information Administration estimating production has grown to 738 thousand barrels per day (bpd) by September (the last month for which data is available) compared with 497 thousand bpd in September 2017.

Combining the relatively high oil prices from July to October with recent declines in NYMEX oil futures, WTI is estimated to average about $63/bbl for FY19. The impact to the state's oil price was partially mitigated by a drop in the differential to WTI, which had grown to nearly $17 in September due to pipeline constraints but dropped to about $9 by November, likely due to the expansion of the Sunrise oil pipeline that month. Still, as Permian production continues to grow, the forecast considers a prolonged period of heavy discounts of New Mexico oil prices through the end 2019 until additional pipeline capacity becomes available.

FY	*2018*	*2019*	*2020*
	Actual	*Forecast*	*Forecast*
Oil Price ($/bbl)	55.05	49.50	52.00
Oil Volume (MMbbls)	204	250	270
Natural Gas Price ($/mcf)	3.47	3.55	3.00
Natural Gas Volume (bcf)	1,361	1,470	1,515



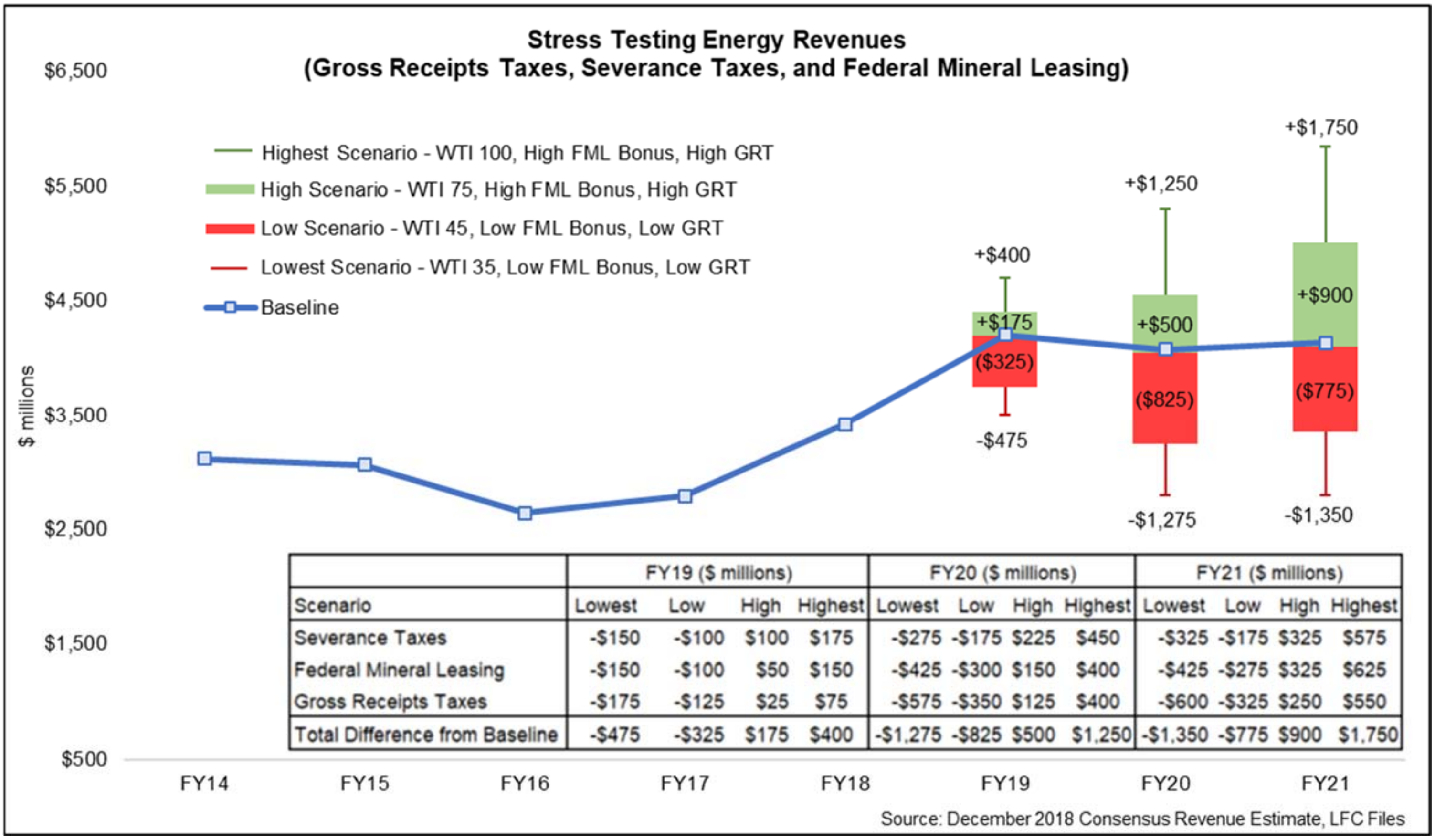
Given the levels of production in the first quarter of the fiscal year, New Mexico is estimated to produce 250 million barrels of oil in FY19, a 22 percent increase from FY18. The consensus estimate projects another 8 percent increase in FY20 based on projections from industry leaders and energy consulting services. Notably, consensus estimates for oil volumes assume New Mexico oil prices in the low-$50s over the forecast horizon. Should prices fall or rise substantially below or above those prices, the volume forecasts and associated revenues could significantly change (see *Stress Testing* section below).

Natural gas production continued to rise in the first quarter of FY19, primarily due to rising volumes from southeastern wells. In FY17 and FY18, southeastern growth offset enough of the northwestern losses to lead to overall growth in New Mexico's natural gas production. The consensus estimate expects this trend to continue throughout the forecast period. Henry Hub natural gas futures prices for early 2019 have remained elevated above $4 per thousand cubic feet (MCF), largely due to seasonal demand expectations driven by cold weather forecasts. This pushes the New Mexico natural gas price forecast up to $3.55 for FY19. However, prices are expected to drop back to $3 for the remainder of the forecast period.

Stress Testing the Revenue Estimates

Dependence on Highly Volatile Revenue Sources

This forecast projects the state will continue to set new oil production records each year through FY23, deepening the state's reliance on this volatile industry and causing the revenue spike to grow as oil production continues to exceed prior expectations.



	FY19 ($ millions)				FY20 ($ millions)				FY21 ($ millions)			
Scenario	Lowest	Low	High	Highest	Lowest	Low	High	Highest	Lowest	Low	High	Highest
Severance Taxes	-$150	-$100	$100	$175	-$275	-$175	$225	$450	-$325	-$175	$325	$575
Federal Mineral Leasing	-$150	-$100	$50	$150	-$425	-$300	$150	$400	-$425	-$275	$325	$625
Gross Receipts Taxes	-$175	-$125	$25	$75	-$575	-$350	$125	$400	-$600	-$325	$250	$550
Total Difference from Baseline	-$475	-$325	$175	$400	-$1,275	-$825	$500	$1,250	-$1,350	-$775	$900	$1,750

Dependence on revenues this industry adds potential, considerable variance to the forecast. Oil production growth was the primary driver for growth in FY18 and the cause for significant revisions in the last two revenue estimates. As such, the total recurring revenue estimate of $7.6 billion in FY19 and the estimated $1.1 billion available in new money for FY20 are heavily dependent on the oil price and volume expectations in the forecast. A sharp decline in oil prices and production activity could create a fiscal challenge far more severe than a moderate recession.

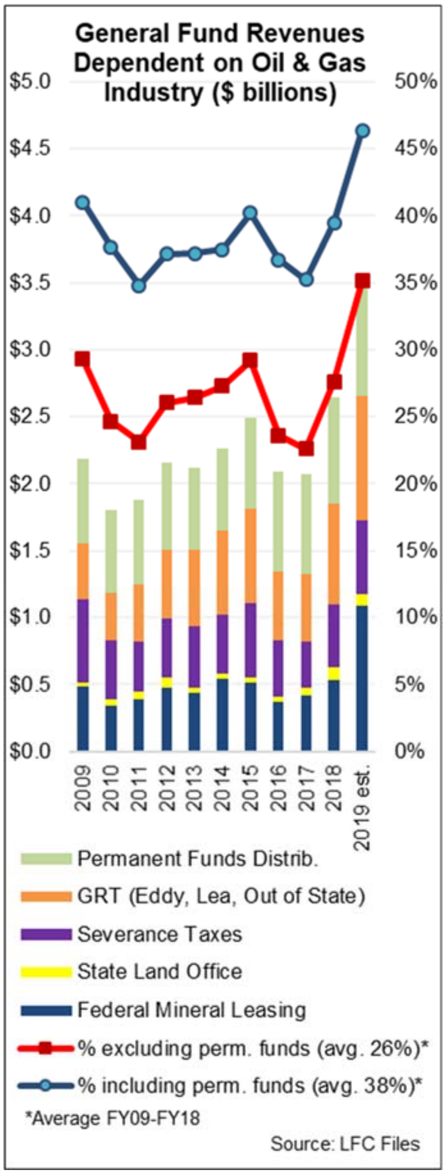
While the consensus estimate includes reasonable price and production expectations based on currently available data, the oil industry is prone to sudden shocks that significantly change market conditions with little notice. Therefore, the chart above illustrates the impact on direct energy revenues if oil prices and production expectations were to differ from the forecast, which would significantly affect the forecasted general fund revenue and reserve levels.

Highest Scenario. On the high end, an unexpected rise in U.S. oil prices to $100/bbl could trigger production growth above the forecasted levels and would significantly increase the total projected value of New Mexico oil. Since severance taxes and federal royalty payments are a function of oil and gas values, revenues from these two sources would increase dramatically, adding about $325 million to the FY19 forecast or about $850 million to FY20.

Additionally, it has been well demonstrated that gross receipts tax (GRT) revenue from Eddy and Lea counties, as well as out-of-state GRT revenue, rise significantly with energy booms. This scenario shows the gains that could be seen if the year-over-year growth rates for the two counties and out-of-state receipts during the last

Additional Stress-Test Scenarios

The more moderate high and low scenarios shown in the graph above reflect assumptions that roughly split the difference between the actual forecast and the highest and lowest scenarios. These scenarios have a greater likelihood of representing reasonable revenue boundaries for FY19, with the highest and lowest scenarios becoming more possible in FY20 and future fiscal years.



Linear Trend Models

Linear trend models are a simplistic forecasting technique that uses historical data to predict future outcomes. These models can identify cyclical variations, such as business cycles that consist of periods of prosperity followed by periods of recession and then recovery. Recessionary periods will fall below long-term trend lines, while periods of prosperity are above the long-term trend line.

half of FY18 continued unabated throughout FY19 then gradually trended down in future fiscal years to the growth rates included in the forecast. This would add about $75 million to the forecast for FY19 and about $400 million to FY20. In total, if WTI were to increase to $100/bbl, the state could gain an additional $400 million in FY19 or an additional $1.25 billion in FY20.

Lowest Scenario. On the low end, an unexpected drop in oil prices would send the state's direct energy revenues into a tailspin. The scenario assumes that if WTI declined to $35/bbl, New Mexico oil production would show little-to-no growth in the second half of FY19 and would begin to decline in FY20. This could cause the state to lose $150 million to $275 million in severance taxes alone. Federal royalty payments would also decline due to losses in oil production value.

Additionally, the state could receive significantly less GRT revenue as falling prices could signal operators to pull back on investments. In this scenario, GRT revenues from Eddy and Lea counties and out-of-state receipts plunge near the level seen at the depth of the oil industry crash in 2016. FY19 is relatively insulated from the impact since nearly six months are complete and some spending decisions for following months have already been made. However, a severe impact could cause a sharp decline as the fiscal year continues and then hit FY20 in its entirety.

With each of these impacts combined, if WTI were to decline to $35/bbl, the state could lose about $475 million in direct energy revenues in FY19 or nearly $1.3 billion if this occurred in FY20.

Trend Analysis

In addition to reviewing potential impacts from changes in highly volatile revenue sources, Attachment 11 shows a calculated a 10-year trend for revenue collection by major tax type and compares current revenue estimates with the trend to determine the sustainability of current growth rates.

The trend analysis looks specifically at New Mexico's major sources of revenue: sales taxes, income taxes, severance taxes, investment income, and rents and royalty payments. Using actual revenue data from these sources for FY08 to FY17, a 10-year trend line is carried forward through FY20, demonstrating what FY18 through FY20 revenues would look like if they followed the same pattern as the last 10 years. It also illustrates how far current and projected revenues deviate from the trend, both as individual revenue sources and when totaled together.

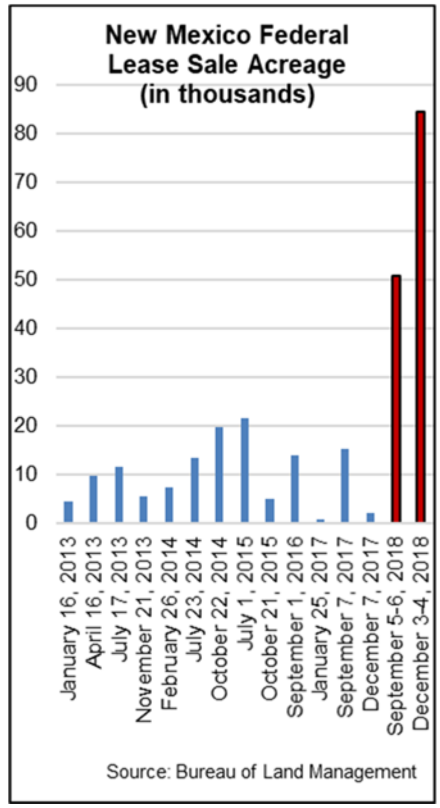
The bar chart on Attachment 11 represents how far each individual revenue source deviates from its 10-year trend. For example, the light blue bars represents GRT revenue, and in FY18 it was $301 million above the prior 10-year trend. When each of the major revenue sources are totaled together, as illustrated by the red line, FY19 revenues that are projected to be $1.7 billion above trend. Projected revenues for FY20 are $1.4 billion above trend.

Revenues significantly above trend may not be sustainable over time. Attachment 12 illustrates how a similar 10-year trend analysis would have looked if performed in the years preceding the Great Recession. The chart shows revenues were considerably above trend from 2006 to 2008 but fell significantly below trend during the recession and remained below trend in the following years. The analysis indicates policy makers should proceed with caution when allocating the current revenue surge to recurring expenditures.

General Fund Revenue Forecast

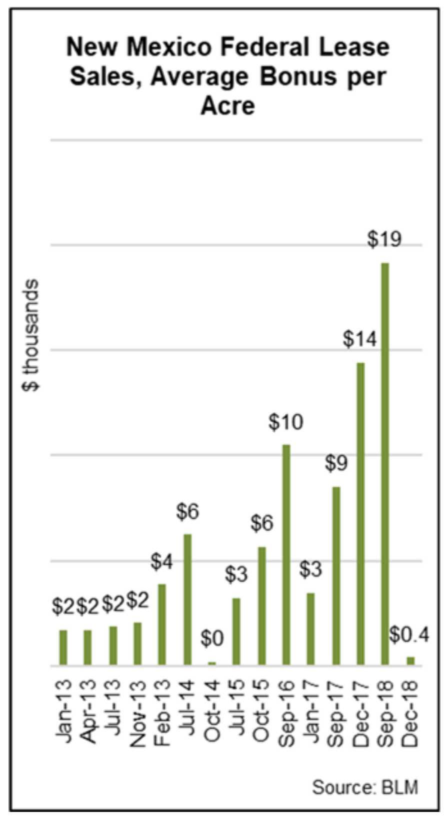
Severance Taxes

Final oil production for FY18 was 204.4 million barrels at an average price of $55.05 per barrel. This represents about a 34 percent increase in oil production from the prior fiscal year, and the state is currently on track to grow by another 22 percent in FY19. With the recent drop in NYMEX oil futures, the consensus estimate pulls down the expected New Mexico oil price to $49.50 for FY19. Although the forecast reduces oil price expectations for FY19, the consensus estimate expects little impact on FY19 oil production, as many oil companies made capital expenditure decisions affecting production and infrastructure investments for the next three to six months when WTI prices were still around $70/bbl. However, downward revisions to oil price expectations for future years resulted in slower production growth expectations for the current forecast horizon.



Reduced price forecasts and slower growth expectations resulted in lower general fund estimates for production tax revenue for FY19 and beyond. New Mexico is expected to collect a total of $544.5 million in general fund production taxes in FY19, down from the $551 million estimated in August. Of the FY19 amount, CREG expects $421.9 million to flow to the general fund, with the remaining $122.6 million to flow to the state's rainy day fund (see Attachment 4). The forecast projects another $146.6 million will flow into the rainy day fund in FY20. In the event of an oil price downturn or unrealized expectations of oil production gains, general fund reserves will help protect the state against painful budget cuts.

Oil and gas school tax revenues for FY18 came in $24.2 million above the August estimate due to misreporting of natural gas volumes to TRD's GenTax system, which led CREG to underestimate the total tax revenues. The department is currently working with the misreporting companies to correct the historical data, and those companies appear to be correctly reporting for FY19.



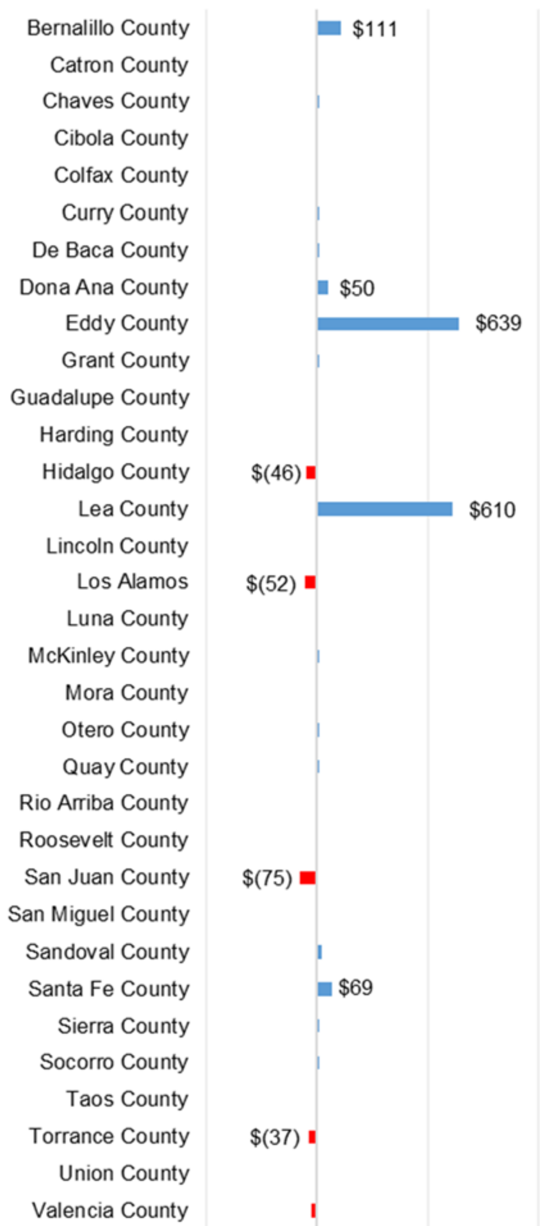
Rents and Royalties

Revenues for oil and gas bonuses on state lands came in higher than expected for the first five months of FY19, resulting in an upward revision to the general fund State Land Office estimate for the fiscal year, which is now projected at $84.4 million.

The September 2018 federal lease sale of over 50 thousand acres in Eddy and Lea counties generated a record-breaking $972 million, of which nearly half, or $453.3 million, was distributed to the state in November. However, the December lease sale, covering 82 thousand acres, generated just $16 million for the state. The Bureau of Land Management plans to hold two small additional New Mexico lease sales in March and June 2019; however, revenues from these two sales are expected to be credited to FY20 due to potential for protests and delays in distributions to the state. Combining these unprecedented bonus payment amounts with expected royalty distributions, CREG expects federal mineral leasing (FML) payments to generate an astonishing $1.1 billion in general fund revenue in FY19. These payments alone account for 14.5 percent of all FY19 general fund revenues, up from 8.3 percent in FY18.

Large Gains from Lease Sale Revenues Likely Nonrecurring. While federal lease sales for New Mexico land occur every year, the available acreage and associated

Matched Taxable Gross Receipts by County, Year-over-Year Amount, FY19 thru September (in millions)



Unemployment Rates Remain High for Some Counties and Demographics

While New Mexico's unemployment rate was 4.6 percent in October, rural counties still face higher rates, such as Luna (8.1 percent), McKinley (6.7 percent), Catron (6.2 percent), and Cibola (6.0 percent). Additionally, New Mexico job seekers ages 16 to 24 encounter unemployment rates higher than the national average, according to data from the Bureau of Labor Statistics.

revenues from these sales varies and is heavily dependent on market conditions at the time. The large revenue gains in the September lease sale for FY19 appear unlikely to continue, and the CREG forecast assumes FY20 sales will look more like those of the last two years (averaging about $75 million) before reverting toward historical norms in FY21 and beyond. Federal leases are issued for a 10-year period, so once prime land has been leased it will not be available again for some time.

Gross Receipts Taxes

Growth Concentrated in Eddy and Lea Counties. Virtually all of the gross receipts tax (GRT) revenue increase in this forecast for FY19 and FY20 above FY18 levels is attributed to the oil and gas sector, specifically receipts from Eddy and Lea counties and out-of-state receipts. The out-of-state figure is receipts for goods sold into New Mexico for which there is no local reporting location. Tax revenues from Amazon and select other online sellers fall into this category, but much of the revenue base, and increase, appears to be related to oil and gas drilling activities. These revenues, along with those from the two counties, are rising at a remarkable rate, with Eddy and Lea county matched taxable gross receipts (MTGR) rising by about 60 percent year-over-year for the first quarter of FY19.

In the August forecast, the FY18 MTGR growth for July through May showed Eddy and Lea counties made up 60 percent of all the growth for the state's 33 counties. For this forecast, those two counties made up 95 percent of the growth for the first quarter of FY19. Out-of-state MTGR grew by 42 percent over the same period, adding to the portion of total MTGR growth that can be attributed primarily to the energy industry.

Little Economic Growth Statewide. Even setting aside the remarkable growth rates above, most of the rest of New Mexico experienced little growth in the first quarter of FY19. Bernalillo county MTGR grew 2.5 percent in the first quarter, barely exceeding the rate of inflation, and the other 30 counties combined declined 2.6 percent from a year ago. TRD closed the September GRT report a couple days earlier than usual in FY19, so some filings that would ordinarily be part of September will appear in October. Accounting for that could show modestly higher growth; however, this growth would not account for any real economic growth in most of the state. This lack of growth is highly concerning and at odds with recent statewide employment growth figures, which appear to be optimistic and may be revised down.

Problems with Income and Diversification. Irrespective of downward revisions to employment growth estimates, declining unemployment levels show the state no longer has a jobs problem. New Mexico has an income problem, with too many statewide jobs in low-wage positions, and a diversification problem. MTGR reporting shows economic growth is highly concentrated in very few geographic areas within the state, and revenues and the underlying state economy are highly dependent on the volatile energy industry.

Statewide for the first quarter of FY19, the mining industry dominated MTGR growth, rising by 80 percent year-over-year. This added $716 million to total MTGR, more than one-third of all MTGR growth. Wholesale trade grew by $219 million, retail trade by $156 million, and leisure and hospitality by $111 million. The vast majority of MTGR in mining occurred in Eddy and Lea counties and out-of-state, but Bernalillo County continues to dominate MTGR in retail. For wholesale trade, Bernalillo County remains the leader for now, but Eddy County will likely take that top spot by the end of FY19. Construction growth slowed slightly in the first quarter, but Eddy and Lea counties grew quickly enough to take second and third for the most construction activity, and by the end of the first quarter, they combined to exceed Bernalillo County in construction (see Attachment 9).

Investment Earnings

Permanent Funds. Distributions from the land grant permanent fund (LGPF) and severance tax permanent fund (STPF) are based on the five-year rolling average of the year-end balance. By the end of October 2018, the market value of the LGPF was $17.4 billion and the value of the STPF was $5.1 billion. For FY19, the consensus estimate expects the LGPF to distribute $636.2 million to the general fund for public schools, up almost $50 million from FY18. The STPF will distribute $220 million in non-earmarked revenue to the general fund in FY19, up $10 million from FY18.

State Treasurer's Office. The revenue forecast for interest earnings on general fund balances held by the state treasurer rose significantly in the August forecast for FY19 and later years, but this forecast slightly revises down the estimates for FY19 and FY20 before returning to nearly the same estimates in the prior forecast for FY21 and beyond. Despite higher than projected increases in balances during FY18 and early FY19 on which interest may be earned, general fund earnings are underperforming expectations. General fund balances reached a new peak of $3.7 billion at the end of November, up from $2.8 billion at the end of FY18.

Insurance

Recurring insurance revenues fell in FY18 due to changes in required premium tax filing and refund procedures, but revenues for FY19 and later years are estimated to rapidly increase to prior levels and then grow with the rate of inflation for insurance premiums. In addition to the recurring revenues, the general fund received $42.9 million in nonrecurring insurance revenues in FY18 as a result of the special audit and investigation conducted in coordination with the state auditor and attorney general. This revenue was reported in the nonrecurring revenue line because it belonged to many prior fiscal years from nonpayment and underpayment of premium taxes, and the state is not expecting any additional payments.

The state received a total of $54.4 million in nonrecurring revenues from this effort, but $3.7 million was paid to three Office of Superintendent of Insurance (OSI) employees who initiated the "qui tam" lawsuit to recover the underpayments, and an additional $3.1 million was temporarily set aside due to ongoing litigation after those employees sued OSI, asserting they are also owed this additional revenue from the state. The remainder of the difference from what the general fund received was due to the existing statutory requirement to send a portion of the receipts to the law enforcement protection fund.

Taxing Internet Sales

The U.S. Supreme Court Wayfair decision gives states permission to tax out-of-state sellers with no physical presence in the state; however, most states, including New Mexico, need to make statutory changes to take full advantage of the ruling and capture this large and growing loss to the tax base.

Applying the state-level 5.125 percent GRT increment may be relatively straightforward, but it will be challenging to apply local government GRT increments on these sellers, which would require restructuring how the tax is imposed on all sellers.

New Mexico will need to switch from GRT reporting based on the seller's location to reporting for the buyer's location for tangible goods, completely upending existing reporting mechanisms. This will require significant preparation by TRD, local governments, and taxpayers. However, this change would place online sellers and local stores on a far more equal playing field and would provide local governments with a much-needed source of revenue to combat shrinking tax bases across much of the state.

Income Taxes

Corporate income taxes (CIT). This revenue source generated $106.6 million in FY18, and the FY19 estimate of $110 million is unchanged from August. However, total CIT receipts are higher than these amounts since $50 million in film credits is distributed annually from this revenue source.

As the provisions of Chapter 160, Laws 2013 (House Bill 641) are approaching full phase-in by the end of tax year 2018, an updated estimate from TRD is needed to fully determine the fiscal impact of this provision, which reduced the CIT rate and provided for single sales factor apportionment for businesses engaged in manufacturing. Although the full effects of this legislation are currently unknown, a reversal to old, higher rates, or eliminating single sales factor apportionment after just now becoming fully phased-in, could create a "whiplash" effect for businesses.

Personal Income Tax (PIT). Revenues for the personal income tax (PIT) were $27 million higher for FY18 than estimated in the August forecast due to higher-than-expected final settlements and oil and gas withholding for June, as well as lower-than-expected refunds for June. Total PIT revenues were $1,519 million for FY18, a 10 percent increase over FY17, well above the 3.4 percent growth in total wages and salaries. Strong PIT growth is largely tied to the energy boom, as withholding of oil and gas payments to interest owners based on product value came in about $50 million higher than the prior fiscal year, representing about a 73 percent increase. Federal tax reform changes also generated revenue strength in FY18 as the state's withholding tables were updated to reflect federal tax reform changes (see sidebar discussion).

The consensus group estimates FY19 PIT revenues will be $1.56 billion, a growth rate of 3 percent above FY18. An additional 2.6 percent growth in PIT revenue is expected in FY20, bringing the total PIT estimate for that year to about $1.61 billion.

Federal Tax Reform

TRD estimates the state will gain about $54 million in additional annual revenue annually due to the federal Tax Cuts and Jobs Act (TCJA), a portion of which was received in the latter part of FY18.

New Mexico largely conforms to or "piggybacks" off federal personal income tax filings, and certain federal changes lead to automatic taxation changes at the state level.

For tax years beginning in 2018 and beyond, the TCJA nearly doubled the standard deduction amount for all filers and reduced the personal exemption to zero. The increased standard deduction creates a benefit to the taxpayers but a cost to the state, while elimination of the personal exemption means the state can no longer piggyback off that provision, creating a cost to the taxpayers but a benefit to the state.

This results in effective tax cuts or tax increases for different groups of individuals, but the people who would be most likely to see tax increases would be those with multiple dependents (e.g. children).

Forecast Risks

Recession

IHS's economic forecast assumes less than a 50 percent chance of a recession with negative GDP growth in any given year and therefore does not include this risk in the baseline economic forecast. The baseline forecast is the underpinning for the consensus revenue forecast, so that risk is similarly excluded from the revenue projections.

However, a November 2018 survey by The Wall Street Journal of dozens of economists showed two-thirds expect a recession to hit within the next two years, and the median projection is for a recession in a year and a half, at the start of FY21. Without a reasonable methodology to account for this risk and the discrepancy in the projections by different economist groups, there was no way to incorporate it into the forecast. Despite this, it would be a phenomenal occurrence for the next recession not to occur within the forecast period, and the state's insurance against this risk would be high reserve levels and other fiscal buffers combined with moderate growth in recurring budgets.

Tax Protests

Tax abatement and refund claim protests continue to grow and increasingly threaten the revenues projected in the consensus forecast. CREG determined currently available protest data is insufficient to estimate the value or timing of this critical risk. TRD provided useful data over the last year, but without additional data, this risk cannot be reasonably incorporated into the revenue forecast at this time. However, the risk remains and threatens revenues in the current and future fiscal years. If even a small number of protests are lost by the state, it could result in general fund losses of hundreds of millions of dollars. This provides additional justification for substantial reserve levels and caution when increasing recurring budgets

TRD audits showing claims in protest with the agency or pending in state courts were valued at $98.2 million at the end of FY16 and $221.1 million at the end of FY17, and the department reports the amount has now grown to $320 million. Of this total, about $250 million is related to the GRT deduction for chemicals and reagents, a deduction that multiple bills in the 2018 legislative session attempted to amend, without success. The total value under protest is approaching three times the historical average, and as seen in the past, if the state loses a significant protest claim, other taxpayers may immediately file amended tax returns to claim abatements or refunds based on the decision. Taxpayers may amend returns for the three prior years plus year-to-date, creating large initial impacts in addition to the ongoing losses.

A history of the dollar value of the protests decided in favor of the state versus the taxpayer would be especially helpful for forecasting purposes. This data was requested by LFC staff, and TRD told the committee at a hearing in April it would supply the requested data within one week, but the agency has not supplied most of the additional requested information. Despite the lack of ability to properly estimate the value of this risk, it remains a clear danger to revenues in the current and future fiscal years and could result in sudden, sharp general fund losses, exacerbating the significant risk from revenue volatility.

Local Governments Lawsuit Risk

Several local governments filed suit against TRD, claiming the agency incorrectly withheld portions of GRT distributions over several years.

Taxpayers often amend previous filings for various reasons, including correcting errors or taking deductions not previously taken, and these amendments can often result in impacts to local governments in addition to the state. However, there are statutory limitations for how TRD is allowed to claw back money from the distributions to local governments as part of correcting the issue to match the amended filings.

The local government plaintiffs claim TRD might have incorrectly clawed back more than $10 million. Other local governments may also join the lawsuit, which could cause that estimate to rise significantly. Local governments also argue the state should not be using language in the General Appropriation Act to increase administrative fees charged to them, and this equates to tens of millions of dollars over the last several years.

General Fund Financial Summary

The summary shown on Attachment 2 illustrates the impact of the December 2018 revenue estimates on reserve levels. Revenues are expected to exceed expenditures in FY19 by $1.2 billion. Total ending balances were $1.18 billion, or 19.5 percent, for FY18 and are projected to be $2.54 billion, or 40.1 percent, for FY19. New money is estimated at $1.1 billion, or 17 percent, more than FY19 recurring appropriations.

Due to the striking revenue volatility and risks, 20 percent or greater reserve levels would act as a resource for significant, unexpected revenue shortfalls. Absent any additional appropriations from FY19 revenues, this forecast projects the operating reserve (a buffer against minor annual declines from the forecast) will exceed 8 percent of recurring appropriations at the end of fiscal years 2018 and 2019. This will cause reserves in excess of that level to flow into the tax stabilization reserve – the rainy day fund buffer for more severe revenue shortfalls – by statute (see Attachments 4 and 5), leading to 29.4 percent reserves in that fund by the end of FY19.

Film Credit Backlog

By the end of FY18, accrued film credit claims (both approved and filed but not yet through the approval process) totaled about $180 million above the amounts paid in that fiscal year. With a $50 million annual cap, this creates a backlog of more than three years even without any additional annual claims. This is a significant state obligation that will likely get worse without adjustments to the film credit payout mechanics in statute.

Attachment 1

General Fund Consensus Revenue Estimate December 2018

Revenue Source	FY18					FY19					FY20				
	Aug 2018 Prelim. Actual	Dec 2018 Unaudited Actual	Change from Prior	% Change from FY17	$ Change from FY17	Aug 2018 Est.	Dec 2018 Est.	Change from Prior	% Change from FY18	$ Change from FY18	Aug 2018 Est.	Dec 2018 Est.	Change from Prior	% Change from FY19	$ Change from FY19
Base Gross Receipts Tax	2,557.7	2,525.9	(31.8)	16.4%	356.6	2,751.1	2,736.2	(14.9)	8.3%	210.3	2,873.1	2,783.7	(89.4)	1.7%	47.5
60-Day Money & Other Credits	(53.9)	(21.0)	32.9	-36.4%	12.0	(53.9)	(40.0)	13.9	90.5%	(19.0)	(53.9)	(30.0)	23.9	-25.0%	10.0
F&M Hold Harmless Payments	(118.8)	(123.8)	(5.0)	0.9%	(1.1)	(115.0)	(113.5)	1.5	-8.3%	10.3	(111.4)	(108.0)	3.4	-4.8%	5.5
NET Gross Receipts Tax	2,385.0	2,381.1	(3.9)	18.3%	367.5	2,582.2	2,582.7	0.5	8.5%	201.6	2,707.8	2,645.7	(62.1)	2.4%	63.0
Compensating Tax	57.0	56.1	(0.9)	15.6%	7.6	70.0	70.0	-	24.8%	13.9	70.0	70.0	-	0.0%	-
TOTAL GENERAL SALES	2,442.0	2,437.2	(4.8)	18.2%	375.1	2,652.2	2,652.7	0.5	8.8%	215.5	2,777.8	2,715.7	(62.1)	2.4%	63.0
Tobacco Taxes	79.3	78.4	(0.9)	0.6%	0.5	77.6	77.4	(0.2)	-1.2%	(1.0)	76.2	76.0	(0.2)	-1.8%	(1.4)
Liquor Excise	23.9	23.8	(0.1)	222.6%	16.4	25.2	25.6	0.4	7.5%	1.8	23.0	23.4	0.4	-8.6%	(2.2)
Insurance Taxes	201.0	179.5	(21.5)	-21.1%	(48.0)	217.7	209.7	(8.0)	16.8%	30.2	234.6	216.4	(18.2)	3.2%	6.7
Fire Protection Fund Reversion	17.8	20.0	2.2	6.9%	1.3	18.3	18.3	-	-8.3%	(1.7)	18.9	18.9	-	3.0%	0.6
Motor Vehicle Excise	154.0	154.0	0.0	6.0%	8.8	151.7	150.6	(1.1)	-2.2%	(3.4)	154.9	155.5	0.6	3.3%	4.9
Gaming Excise	61.5	62.1	0.6	4.3%	2.5	61.8	63.6	1.8	2.5%	1.5	63.1	63.7	0.6	0.2%	0.1
Leased Vehicle & Other	9.0	8.2	(0.8)	13.1%	0.9	8.0	8.0	-	-2.4%	(0.2)	8.0	8.0	-	0.0%	-
TOTAL SELECTIVE SALES	546.5	525.9	(20.5)	-3.2%	(17.5)	560.2	553.2	(7.0)	5.2%	27.3	578.7	561.9	(16.8)	1.6%	8.6
Personal Income Tax	1,492.0	1,519.0	27.0	10.0%	138.3	1,557.4	1,564.3	7.0	3.0%	45.4	1,604.4	1,605.0	0.6	2.6%	40.7
Corporate Income Tax	110.0	106.6	(3.4)	51.9%	36.4	110.0	110.0	-	3.2%	3.4	115.5	115.5	-	5.0%	5.5
TOTAL INCOME TAXES	1,602.0	1,625.6	23.6	12.0%	174.7	1,667.4	1,674.3	7.0	3.0%	48.8	1,719.9	1,720.5	0.6	2.8%	46.2
Oil and Gas School Tax	426.6	450.8	24.2	48.2%	146.5	368.6	373.6	5.0	-17.1%	(77.2)	369.0	372.7	3.7	-0.2%	(0.9)
Oil Conservation Tax	22.2	22.9	0.7	31.7%	5.5	26.3	25.5	(0.8)	11.4%	2.6	28.6	27.1	(1.5)	6.3%	1.6
Resources Excise Tax	8.5	8.6	0.1	-11.2%	(1.1)	7.3	7.5	0.2	-12.5%	(1.1)	7.1	7.4	0.3	-1.3%	(0.1)
Natural Gas Processors Tax	10.8	10.8	0.0	5.1%	0.5	14.4	15.3	0.9	41.1%	4.5	14.0	16.6	2.6	8.5%	1.3
TOTAL SEVERANCE TAXES	468.1	493.1	25.0	44.3%	151.5	416.6	421.9	5.3	-14.4%	(71.2)	418.7	423.8	5.1	0.5%	1.9
LICENSE FEES	62.2	61.0	(1.2)	14.4%	7.7	55.1	54.5	(0.6)	-10.7%	(6.5)	55.7	55.1	(0.6)	1.1%	0.6
LGPF Interest	584.9	586.6	1.7	8.3%	45.0	632.6	636.2	3.6	8.5%	49.7	678.6	682.1	3.5	7.2%	45.8
STO Interest	5.8	5.9	0.1	-284.1%	9.2	35.5	28.5	(7.0)	379.4%	22.6	66.5	57.8	(8.7)	102.8%	29.3
STPF Interest	210.4	210.4	(0.0)	5.0%	9.9	220.6	220.6	0.0	4.9%	10.2	229.0	229.8	0.8	4.2%	9.2
TOTAL INTEREST	801.1	802.9	1.8	8.7%	64.1	888.7	885.3	(3.4)	10.3%	82.5	974.1	969.7	(4.4)	9.5%	84.4
Federal Mineral Leasing	564.1	564.2	0.1	29.5%	128.5	815.0	1,098.0	283.0	94.6%	533.8	750.0	758.5	8.5	-30.9%	(339.5)
State Land Office	111.8	111.8	0.0	56.4%	40.4	62.7	84.4	21.7	-24.5%	(27.4)	62.9	61.5	(1.4)	-27.1%	(22.9)
TOTAL RENTS & ROYALTIES	675.9	676.1	0.2	33.3%	168.9	877.7	1,182.4	304.7	74.9%	506.3	812.9	820.0	7.1	-30.6%	(362.4)
TRIBAL REVENUE SHARING	65.0	68.1	3.1	8.6%	5.4	74.0	74.8	0.8	9.9%	6.7	74.8	76.2	1.4	1.9%	1.4
MISCELLANEOUS RECEIPTS	43.4	46.9	3.5	-5.2%	(2.6)	47.4	48.3	0.9	3.0%	1.4	48.8	50.2	1.4	3.9%	1.9
REVERSIONS	37.0	79.8	42.8	4.3%	3.3	40.0	42.5	2.5	-46.7%	(37.3)	40.0	40.0	-	-5.9%	(2.5)
TOTAL RECURRING	6,743.2	6,816.5	73.3	15.8%	930.6	7,279.4	7,590.0	310.6	11.3%	773.5	7,501.3	7,433.1	(68.2)	-2.1%	(156.9)
TOTAL NONRECURRING	65.5	64.8	(0.7)	-88.7%	(510.9)	-		-	0.0%	-	-		-	0.0%	-
GRAND TOTAL	6,808.7	6,881.3	72.6	6.5%	419.7	7,279.4	7,590.0	310.6	10.3%	708.7	7,501.3	7,433.1	(68.2)	-2.1%	(156.9)

Note: Columns in blue show difference between the December 2018 Consensus Revenue Estimate and August 2018 Consensus Revenue Estimate
Note: Columns in red show year-over-year growth expected in the December 2018 Consensus Revenue Estimate

	FY19 Aug 2018 Est.	FY19 Dec 2018 Est.	FY19 Change from Prior	FY19 % Change from FY18	FY19 $ Change from FY18	FY20 Aug 2018 Est.	FY20 Dec 2018 Est.	FY20 Change from Prior	FY20 % Change from FY19	FY20 $ Change from FY19
Oil & Gas School Tax to Tax Stab. Res.	134.5	122.6	(11.9)	0.0%	-	177.2	146.6	(30.6)	19.6%	24.0

General Fund Consensus Revenue Estimate December 2018

Revenue Source	FY21					FY22					FY23				
	Aug 2018 Est.	Dec 2018 Est.	Change from Prior	% Change from FY20	$ Change from FY20	Aug 2018 Est.	Dec 2018 Est.	Change from Prior	% Change from FY21	$ Change from FY21	Aug 2018 Est.	Dec 2018 Est.	Change from Prior	% Change from FY22	$ Change from FY22
Base Gross Receipts Tax	2,923.2	2,849.5	(73.7)	2.4%	65.8	3,023.7	2,970.9	(52.8)	4.3%	121.4	3,128.6	3,091.8	(36.8)	4.1%	120.9
60-Day Money & Other Credits	(53.9)	(30.0)	23.9	0.0%	-	(53.9)	(30.0)	23.9	0.0%	-	(53.9)	(30.0)	23.9	0.0%	-
F&M Hold Harmless Payments	(107.8)	(99.7)	8.1	-7.7%	8.3	(104.4)	(90.8)	13.6	-8.9%	8.9	(101.1)	(81.4)	19.7	-10.4%	9.4
NET Gross Receipts Tax	2,761.5	2,719.8	(41.7)	2.8%	74.1	2,865.4	2,850.1	(15.3)	4.8%	130.3	2,973.6	2,980.4	6.8	4.6%	130.3
Compensating Tax	70.0	70.0	-	0.0%	-	70.0	70.0	-	0.0%	-	70.0	70.0	-	0.0%	-
TOTAL GENERAL SALES	2,831.5	2,789.8	(41.7)	2.7%	74.1	2,935.4	2,920.1	(15.3)	4.7%	130.3	3,043.6	3,050.4	6.8	4.5%	130.3
Tobacco Taxes	74.7	74.5	(0.2)	-2.0%	(1.5)	72.9	72.7	(0.2)	-2.4%	(1.8)	71.2	70.8	(0.4)	-2.6%	(1.9)
Liquor Excise	23.1	23.6	0.5	0.9%	0.2	23.2	23.7	0.5	0.4%	0.1	23.3	23.9	0.6	0.8%	0.2
Insurance Taxes	243.1	224.9	(18.2)	3.9%	8.5	252.1	233.7	(18.4)	3.9%	8.8	260.9	242.4	(18.5)	3.7%	8.7
Fire Protection Fund Reversion	19.4	19.4	-	2.7%	0.5	19.9	19.9	-	2.8%	0.5	20.4	20.4	-	2.5%	0.5
Motor Vehicle Excise	158.0	159.2	1.2	2.4%	3.7	160.6	162.5	1.9	2.1%	3.3	163.5	165.6	2.2	1.9%	3.1
Gaming Excise	65.1	66.1	1.0	3.8%	2.4	65.4	67.2	1.8	1.7%	1.1	65.6	68.2	2.6	1.5%	1.0
Leased Vehicle & Other	8.0	8.0	-	0.0%	-	8.0	8.0	-	0.0%	-	8.0	8.0	-	0.0%	-
TOTAL SELECTIVE SALES	591.3	575.7	(15.7)	2.5%	13.8	602.1	587.7	(14.4)	2.1%	12.1	612.9	599.3	(13.6)	2.0%	11.6
Personal Income Tax	1,648.3	1,653.2	4.9	3.0%	48.2	1,695.6	1,702.8	7.1	3.0%	49.6	1,744.4	1,753.8	9.4	3.0%	51.1
Corporate Income Tax	121.3	121.3	-	5.0%	5.8	127.3	127.3	-	5.0%	6.1	133.7	133.7	-	5.0%	6.4
TOTAL INCOME TAXES	1,769.6	1,774.4	4.9	3.1%	53.9	1,823.0	1,830.1	7.1	3.1%	55.7	1,878.1	1,887.5	9.4	3.1%	57.4
Oil and Gas School Tax	403.2	401.5	(1.7)	7.7%	28.8	472.8	464.3	(8.5)	15.6%	62.8	534.9	518.6	(16.3)	11.7%	54.3
Oil Conservation Tax	30.7	28.8	(1.9)	6.3%	1.7	32.3	30.0	(2.3)	4.2%	1.2	33.8	31.0	(2.8)	3.3%	1.0
Resources Excise Tax	6.9	7.3	0.4	-1.4%	(0.1)	6.7	6.9	0.2	-5.5%	(0.4)	6.5	6.4	(0.1)	-7.2%	(0.5)
Natural Gas Processors Tax	13.3	15.5	2.2	-6.6%	(1.1)	13.0	14.4	1.4	-7.1%	(1.1)	13.3	14.5	1.2	0.7%	0.1
TOTAL SEVERANCE TAXES	454.1	453.1	(1.0)	6.9%	29.3	524.8	515.6	(9.2)	13.8%	62.5	588.5	570.5	(18.0)	10.6%	54.9
LICENSE FEES	56.3	55.7	(0.6)	1.1%	0.6	57.1	56.4	(0.7)	1.3%	0.7	57.9	57.2	(0.7)	1.4%	0.8
LGPF Interest	721.5	725.9	4.4	6.4%	43.8	773.7	776.3	2.6	6.9%	50.3	827.9	825.5	(2.4)	6.3%	49.2
STO Interest	74.6	71.4	(3.2)	23.5%	13.6	81.1	79.9	(1.2)	11.9%	8.5	81.1	80.7	(0.4)	1.0%	0.8
STPF Interest	236.6	239.2	2.6	4.1%	9.4	247.2	251.9	4.7	5.3%	12.7	257.8	264.9	7.1	5.2%	13.1
TOTAL INTEREST	1,032.7	1,036.5	3.8	6.9%	66.8	1,102.0	1,108.0	6.0	6.9%	71.5	1,166.8	1,171.1	4.3	5.7%	63.1
Federal Mineral Leasing	775.0	752.3	(22.7)	-0.8%	(6.2)	800.0	766.7	(33.3)	1.9%	14.4	825.0	792.7	(32.3)	3.4%	26.0
State Land Office	63.2	61.5	(1.7)	0.0%	-	63.6	62.0	(1.6)	0.8%	0.5	63.8	62.0	(1.8)	0.0%	-
TOTAL RENTS & ROYALTIES	838.2	813.8	(24.4)	-0.8%	(6.2)	863.6	828.7	(34.9)	1.8%	14.9	888.8	854.7	(34.1)	3.1%	26.0
TRIBAL REVENUE SHARING	76.1	77.8	1.7	2.1%	1.6	77.6	79.7	2.1	2.4%	1.9	79.2	80.9	1.7	1.5%	1.2
MISCELLANEOUS RECEIPTS	50.3	51.9	1.6	3.4%	1.7	51.7	53.2	1.5	2.5%	1.3	53.5	55.1	1.6	3.6%	1.9
REVERSIONS	40.0	40.0	-	0.0%	-	40.0	40.0	-	0.0%	-	40.0	40.0	-	0.0%	-
TOTAL RECURRING	7,740.0	7,668.7	(71.3)	3.2%	235.6	8,077.2	8,019.5	(57.7)	4.6%	350.8	8,409.3	8,366.8	(42.5)	4.3%	347.2
TOTAL NONRECURRING	-		-	0.0%	-	-		-	0.0%	-	-		-	0.0%	-
GRAND TOTAL	7,740.0	7,668.7	(71.3)	3.2%	235.6	8,077.2	8,019.5	(57.7)	4.6%	350.8	8,409.3	8,366.8	(42.5)	4.3%	347.2
Oil & Gas School Tax to Tax Stab. Res.	181.7	149.7	(32.0)	2.1%	3.1	142.0	111.1	(30.9)	-25.8%	(38.6)	110.1	77.3	(32.8)	-30.4%	(33.8)

General Fund Financial Summary:
December 2018 Consensus Revenue Forecast
(millions of dollars)

December 7, 2018	Prelim. FY2018	Estimate FY2019	Estimate FY2020
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue			
2018 December Consensus Revenue Forecast - Recurring Revenue	$ 6,816.5	$ 7,590.0	$ 7,433.1
Total Recurring Revenue	$ 6,816.5	$ 7,590.0	$ 7,433.1
Nonrecurring Revenue			
2017 Regular & Special Sessions Nonrecurring Revenue Legislation [1]	$ 21.1		
2018 December Consensus Revenue Forecast - Nonrecurring Revenue	$ 43.7	$ -	$ -
Total Nonrecurring Revenue	$ 64.8	$ -	$ -
TOTAL REVENUE	**$ 6,881.3**	**$ 7,590.0**	**$ 7,433.1**
APPROPRIATIONS			
Recurring Appropriations			
2017 Regular & Special Session Legislation & Feed Bill [2]	$ 6,073.3		
2018 Session Legislation & Feed Bill [3]	$ 5.6	$ 6,329.8	New Money FY20 $1,103 or 17%
Total Recurring Appropriations	$ 6,078.8	$ 6,329.8	
Nonrecurring Appropriations			
2017 Regular & Special Session Nonrecurring Appropriations [2]	$ 9.0		
2018 Session Nonrecurring Appropriations	$ 113.1	$ 47.8	
Total Nonrecurring Appropriations	$ 122.1	$ 47.8	
TOTAL APPROPRIATIONS	**$ 6,200.9**	**$ 6,377.6**	**$ -**
Transfer to (from) Reserves	$ 680.4	$ 1,212.4	
GENERAL FUND RESERVES			
Beginning Balances	$ 505.3	$ 1,183.5	$ -
Transfers from (to) Appropriations Account	$ 680.4	$ 1,212.4	$ -
Revenue and Reversions	$ 52.3	$ 176.9	$ 201.8
Appropriations, Expenditures and Transfers Out	$ (54.5)	$ (36.0)	$ (35.5)
Ending Balances	**$ 1,183.5**	**$ 2,536.7**	
Reserves as a Percent of Recurring Appropriations	*19.5%*	*40.1%*	

Notes:

1) FY18 reflects remaining solvency transfers per Laws 2017, Chapter 1 (HB4, $11.6 million fire protection fund adjusted reversion) and Laws 2017, First Special Session, Chapter 1 (SB1,

2) $9 million was moved from FY18 recurring appropriations to nonrecurring appropriations to reflect DFA accounting for $7 million LEDA special and $2 million NMCD special

3) Less $2.5 million in FY19 for undistributed compensation from HB2 section 8

* Note: totals may not foot due to rounding

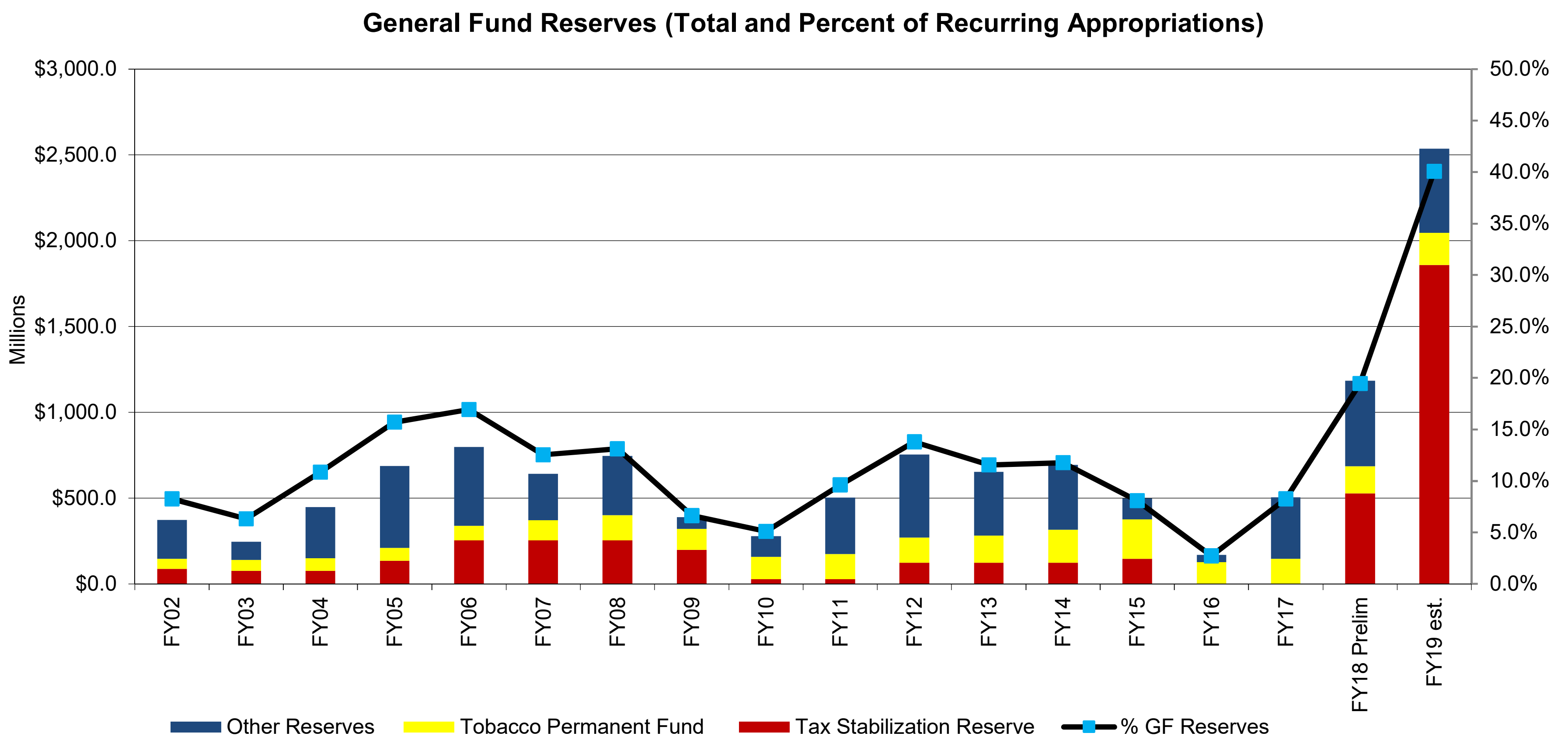
General Fund Financial Summary:
December 2018 Consensus Revenue Forecast
RESERVE DETAIL
(millions of dollars)

December 7, 2018	Prelim. FY2018	Estimate FY2019	Estimate FY2020
OPERATING RESERVE			
Beginning Balance	$ 331.5	$ 484.8	$ 486.3
BOF Emergency Appropriations/Reversions	$ (0.3)	$ (2.0)	$ (2.0)
Transfers from/to Appropriation Account	$ 680.4	$ 1,212.4	$ -
Transfers to Tax Stabilization Reserve	$ (526.8)	$ (1,208.9)	$ -
Transfer from (to) ACF/Other Appropriations	$ -	$ -	$ -
Ending Balance	$ 484.8	$ 486.3	$ 484.3
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	$ 26.0	$ 12.3	$ 4.3
Disaster Allotments	$ (18.5)	$ (16.0)	$ (16.0)
Other Appropriations	$ -	$ -	$ -
Transfers In	$ -	$ -	$ -
Revenue and Reversions	$ 4.8	$ 8.0	$ 8.0
Ending Balance	$ 12.3	$ 4.3	$ (3.7)
STATE SUPPORT FUND			
Beginning Balance	$ 1.0	$ 1.0	$ 1.0
Revenues	$ -	$ -	$ -
Appropriations	$ -	$ -	$ -
Ending Balance	$ 1.0	$ 1.0	$ 1.0
TOBACCO SETTLEMENT PERMANENT FUND (TSPF)			
Beginning Balance	$ 146.8	$ 158.7	$ 187.0
Transfers In	$ 35.7	$ 36.0	$ 35.0
Appropriation to Tobacco Settlement Program Fund	$ (16.2)	$ (18.0)	$ (17.5)
Gains/Losses	$ 11.9	$ 10.3	$ 12.2
Additional Transfers from TSPF	$ (19.5)	$ -	$ -
Transfer to General Fund Appropriation Account	$ -	$ -	$ -
Ending Balance	$ 158.7	$ 187.0	$ 216.6
TAX STABILIZATION RESERVE (RAINY DAY FUND)			
Beginning Balance	$ -	$ 526.8	$ 1,858.2
Transfers In [1]	$ -	$ 122.6	$ 146.6
Transfers In (From Operating Reserve)	$ 526.8	$ 1,208.9	$ -
Transfer Out to Operating Reserve	$ -	$ -	$ -
Ending Balance	$ 526.8	$ 1,858.2	$ 2,004.8
Percent of Recurring Appropriations	*8.7%*	*29.4%*	
EMERGENCY RESERVES: RAINY DAY FUND & TSPF ENDING BALANCES	**$ 685.4**	**$ 2,045.2**	
Percent of Recurring Appropriations	*11.3%*	*32.3%*	
OTHER RESERVE FUND ENDING BALANCES	**$ 498.1**	**$ 491.6**	
Percent of Recurring Appropriations	*8.2%*	*7.8%*	
TOTAL GENERAL FUND ENDING BALANCES	**$ 1,183.5**	**$ 2,536.8**	
Percent of Recurring Appropriations	*19.5%*	*40.1%*	

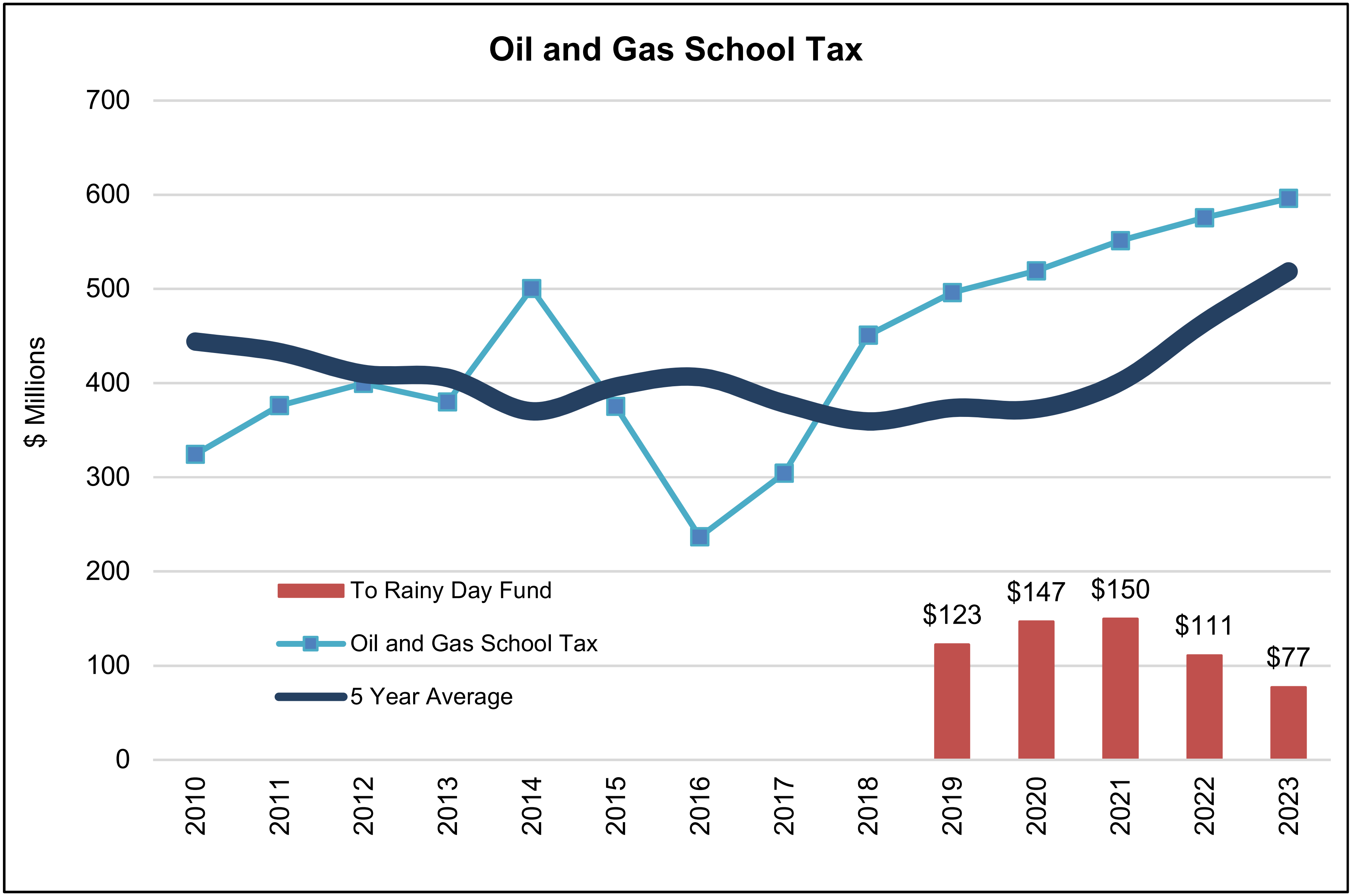
Notes:

1) Estimated transfer to tax stabilization reserve from excess oil and gas emergency school tax revenues above the five-year average

Attachment 3



Source: LFC Files


Oil and Gas School Tax
700
600
500
400
300
200
100
0
$ Millions
To Rainy Day Fund
Oil and Gas School Tax
5 Year Average
$123
$147
$150
$111
$77
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023

Legislative Finance Committee
NEW MEXICO
FINANCE FACTS
Understanding State Financial Policy

General Fund Reserves

Because the New Mexico Constitution requires a balanced budget, state government maintains general fund reserves to cover any shortfalls if revenues are unexpectedly low or expenses are unexpectedly high. The general fund reserves are measured as a percentage of recurring appropriations – planned ongoing spending. They are made up of several distinct accounts: the operating reserve, tax stabilization reserve, appropriation contingency fund, and state support reserve fund.

Operating Reserve

Revenues left at the end of the fiscal year are transferred to the operating reserve. If revenues come up short, the governor may transfer money from the operating reserve to cover authorized expenses. The amount the governor can transfer is capped by the Legislature each year in the General Appropriation Act. Once the operating reserve fund hits 8 percent of the prior budget year's recurring appropriations, the excess must be transferred to the tax stabilization reserve by law.

Tax Stabilization Reserve

Money in the tax stabilization reserve may only be appropriated if (1) the governor declares it necessary because of a shortfall and the House and Senate approve it with a simple majority vote, or (2) two-thirds of both the House and Senate vote for it.

Additional funds are deposited into the tax stabilization reserve from the oil and gas emergency tax if annual revenue exceeds the five-year average income. This allows the state to capture windfall revenue from the oil and gas industry and moderate the volatility of that revenue source. Other state revenue that also spikes when the energy industry booms – including federal mineral leasing payments, trust land distributions, and gross receipts tax collections – are not captured.

Excess revenue left in the general fund at the end of the year goes into the operating reserve.

Operating reserves exceeding 8 percent of the ongoing appropriations are transferred to the tax stabilization reserve.

Oil and gas school tax revenues exceeding the five-year average are transferred to the tax stabilization reserve.

Until 2017, revenue in the tax stabilization reserve in excess of a specified threshold was transferred to another fund for possible distribution to taxpayers. However, several years of depleted reserves prompted lawmakers to transform the tax stabilization into a true "rainy day" fund.

Appropriation Contingency Fund

The Legislature authorizes revenue going in and out of the appropriation contingency fund. A limited amount of the revenue in the fund can also be spent when the governor declares an emergency. The fund is mostly used to set aside money for use if certain circumstances come into play, such as the start-up of a new program moving faster than funded.

State Support Fund

On the first day of each fiscal year, any balance in the public school district general obligation bonds loan fund over $1 million is transferred state support reserve fund and can only be used to augment certain appropriations to the public schools.

Tobacco Settlement Fund

The tobacco settlement permanent fund was created to hold payments to New Mexico from cigarette companies under the master settlement agreement of 1998. Under the enabling legislation, the settlement payments are split, with half going to the permanent fund and half spent directly on health and education programs. However, during economic hard times, the Legislature has temporarily suspended deposits into the permanent fund and put the entire amount into direct spending.

Money in the tobacco settlement permanent fund is invested by the State Investment Council and interest is credited to the fund. The Legislature may authorize spending from the fund for a budget shortfall only after balances in all other reserve accounts have been exhausted.

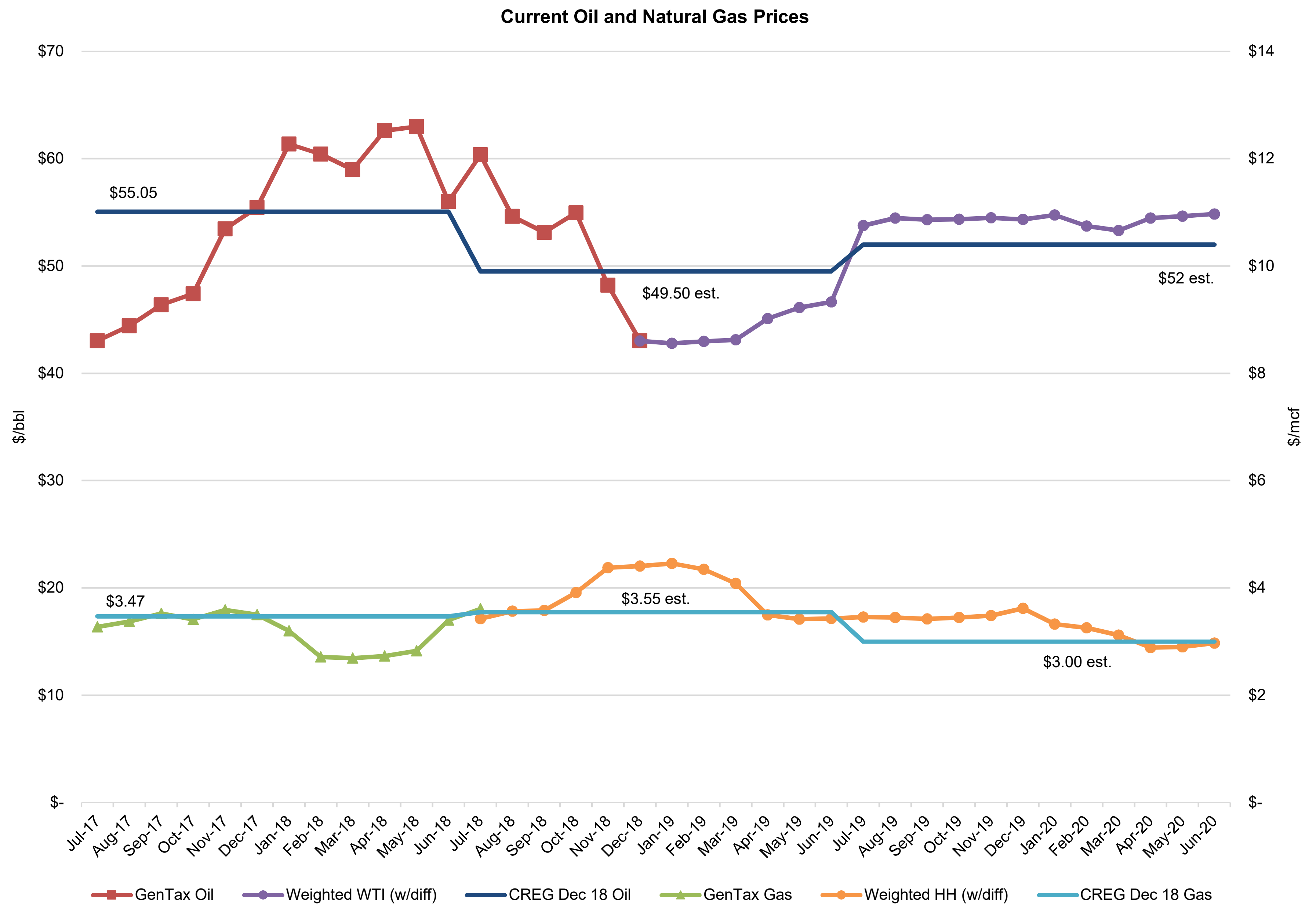
For More Information:
•The status of the New Mexico's reserve accounts can be found in the state's general fund financial summary, published on the State Board of Finance's website: http://nmdfa.state.nm.us/Board_of_Finance.aspx
•Statutes governing New Mexico's general fund reserves include 6-4-2.1, 6-4-2.2, 6-4-2.3, 6-4-4, 6-4-9, 7-1-6.61,12-11-24, 22-8-31 NMSA 1978.

U.S. and New Mexico Economic Indicators

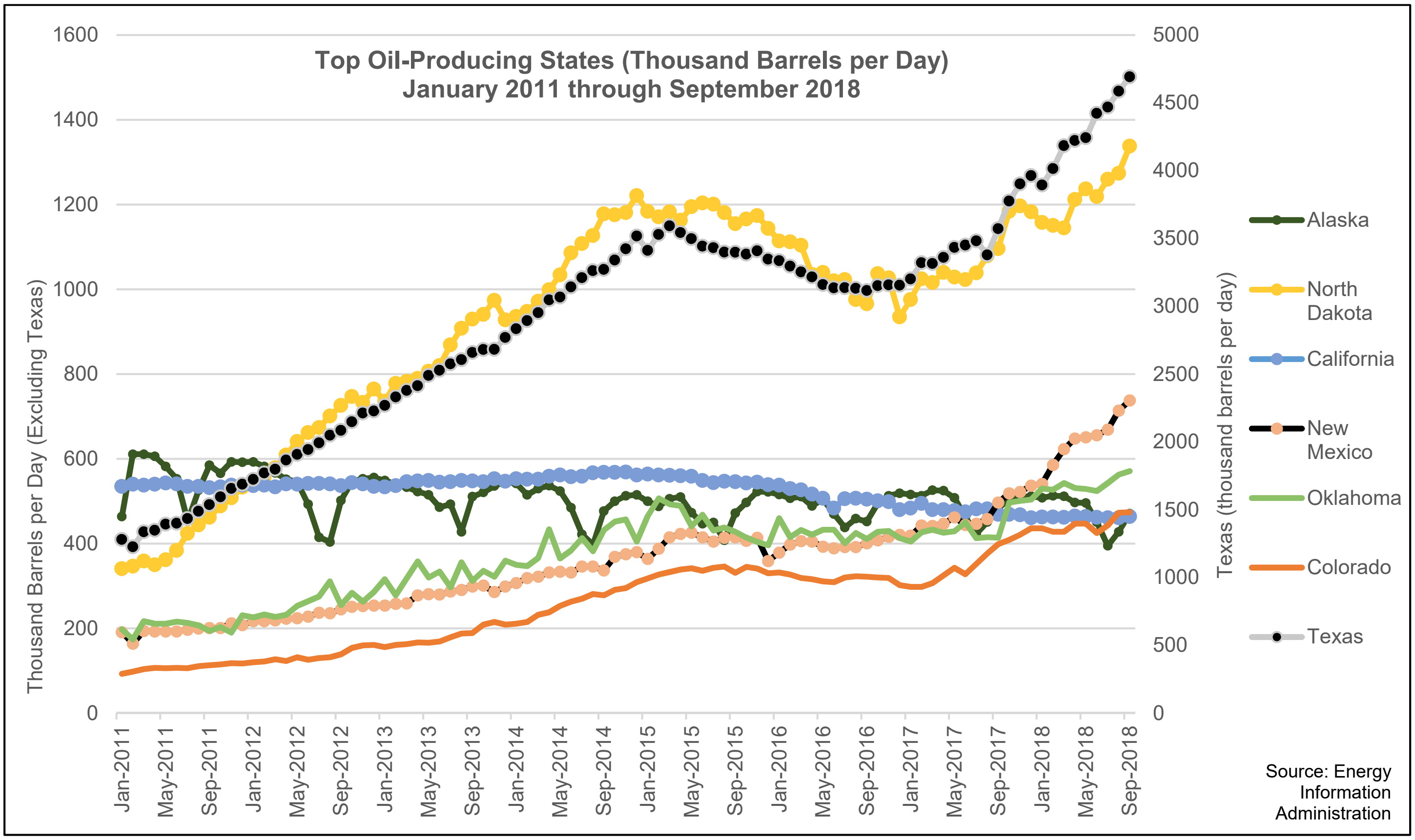
		FY18		FY19		FY20		FY21		FY22		FY23	
		Aug 18 Forecast	Dec 18 Forecast	Aug 18 Forecast	Dec 18 Forecast	Aug 18 Forecast	Dec 18 Forecast	Aug 18 Forecast	Dec 18 Forecast	Aug 18 Forecast	Dec 18 Forecast	Aug 18 Forecast	Dec 18 Forecast
	National Economic Indicators												
GI	US Real GDP Growth (annual avg.,% YOY)*	2.7	2.6	3.0	3.0	2.1	2.4	1.5	1.8	1.5	1.5	1.8	1.5
GI	US Inflation Rate (CPI-U, annual avg., % YOY)**	2.3	2.2	2.4	2.5	2.2	2.3	2.2	1.9	2.2	2.3	2.3	2.3
GI	Federal Funds Rate (%)	1.4	1.4	2.3	2.3	3.2	3.2	3.4	3.4	3.4	3.4	3.4	3.4
	New Mexico Labor Market and Income Data												
BBER	NM Non-Agricultural Employment Growth (%)	0.8	0.9	1.4	1.4	1.4	1.5	1.3	1.3	1.2	1.2	1.0	1.0
BBER	NM Nominal Personal Income Growth (%)***	1.6	2.4	2.8	3.4	4.0	4.3	3.9	4.1	4.6	4.6	4.6	4.5
BBER	NM Total Wages & Salaries Growth (%)	2.6	3.4	3.8	4.1	4.5	4.8	4.7	4.7	4.5	4.5	4.2	4.2
BBER	NM Private Wages & Salaries Growth (%)	3.2	4.4	4.4	4.8	4.9	5.1	5.2	5.3	4.8	5.0	4.6	4.7
BBER	NM Real Gross State Product (% YOY)	2.1	2.1	2.5	2.8	2.2	2.3	1.8	1.9	1.6	1.7	1.6	1.6
CREG	NM Oil Price ($/barrel)	$54.39	$55.05	$56.00	$49.50	$57.00	$52.00	$59.00	$53.00	$59.00	$54.00	$59.00	$54.50
BBER	Oil Volumes (million barrels)	199.8	203.6	238.3	247.9	262.1	284.5	282.6	307.2	297.0	320.9	311.0	336.4
CREG	NM Taxable Oil Volumes (million barrels)	202.0	204.4	245.0	250.0	270.0	270.0	285.0	285.0	300.0	295.0	315.0	305.0
	NM Taxable Oil Volumes (%YOY growth)	29.5%	31.0%	21.3%	22.3%	10.2%	8.0%	5.6%	5.6%	5.3%	3.5%	5.0%	3.4%
CREG	NM Gas Price ($ per thousand cubic feet)****	$3.25	$3.47	$3.10	$3.55	$2.95	$3.00	$2.90	$3.00	$3.00	$3.00	$3.10	$3.00
BBER	Gas Volumes (billion cubic feet)	1,343	1,318	1,378	1,409	1,352	1,443	1,323	1,443	1,334	1,443	1,338	1,465
CREG	NM Taxable Gas Volumes (billion cubic feet)	1,300	1,361	1,381	1,470	1,415	1,515	1,429	1,545	1,455	1,560	1,464	1,575
	NM Taxable Gas Volumes (%YOY growth)	5.2%	10.1%	6.2%	8.0%	2.5%	3.1%	1.0%	2.0%	1.8%	1.0%	0.6%	1.0%

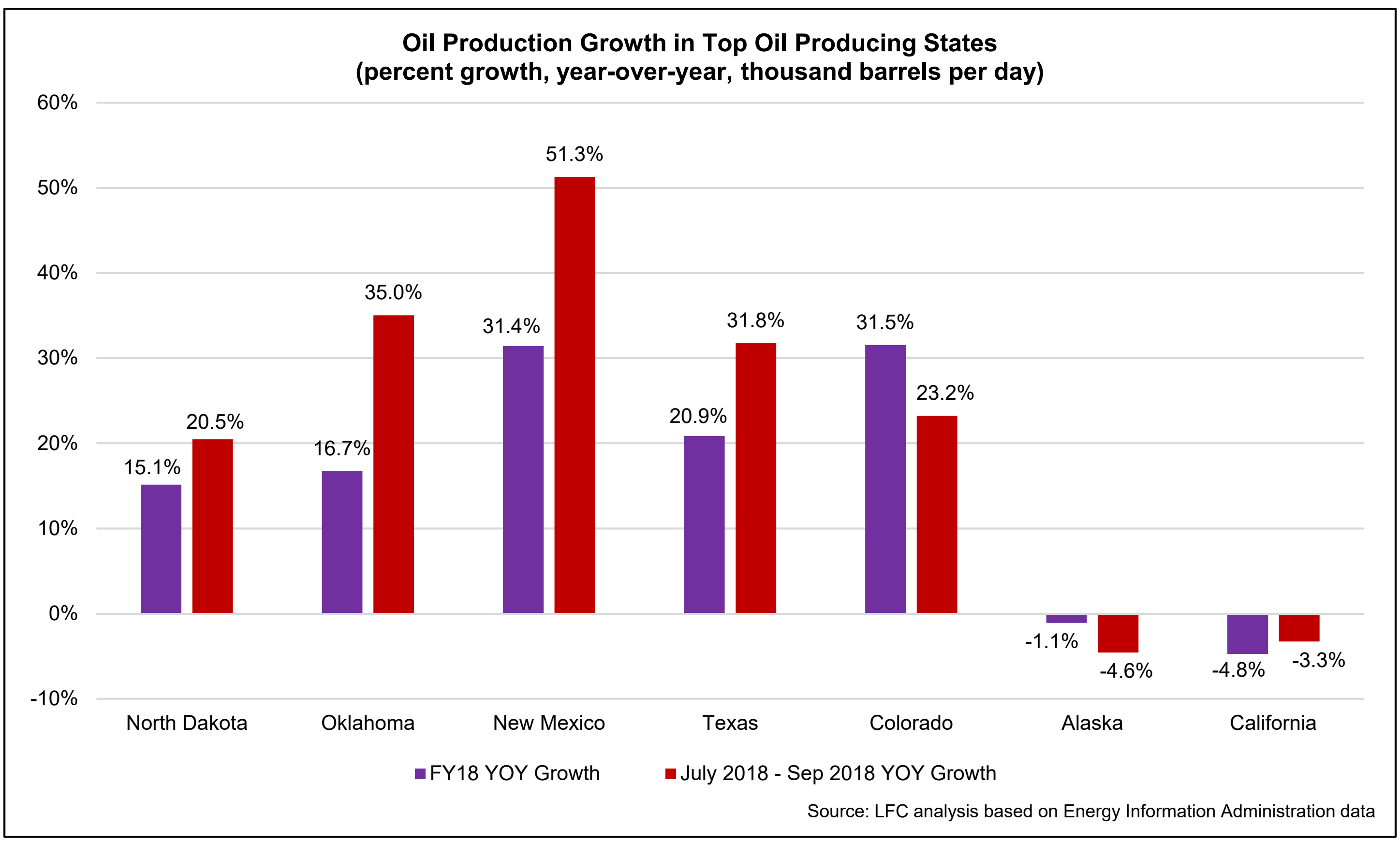
Notes

* 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
****The gas prices are estimated using a formula of NYMEX, EIA, and Moodys (June) future prices as well as a liquid premium based on oil price forecast
Sources: BBER - October 2018 FOR-UNM baseline. IHS Global Insight - November 2018 baseline.



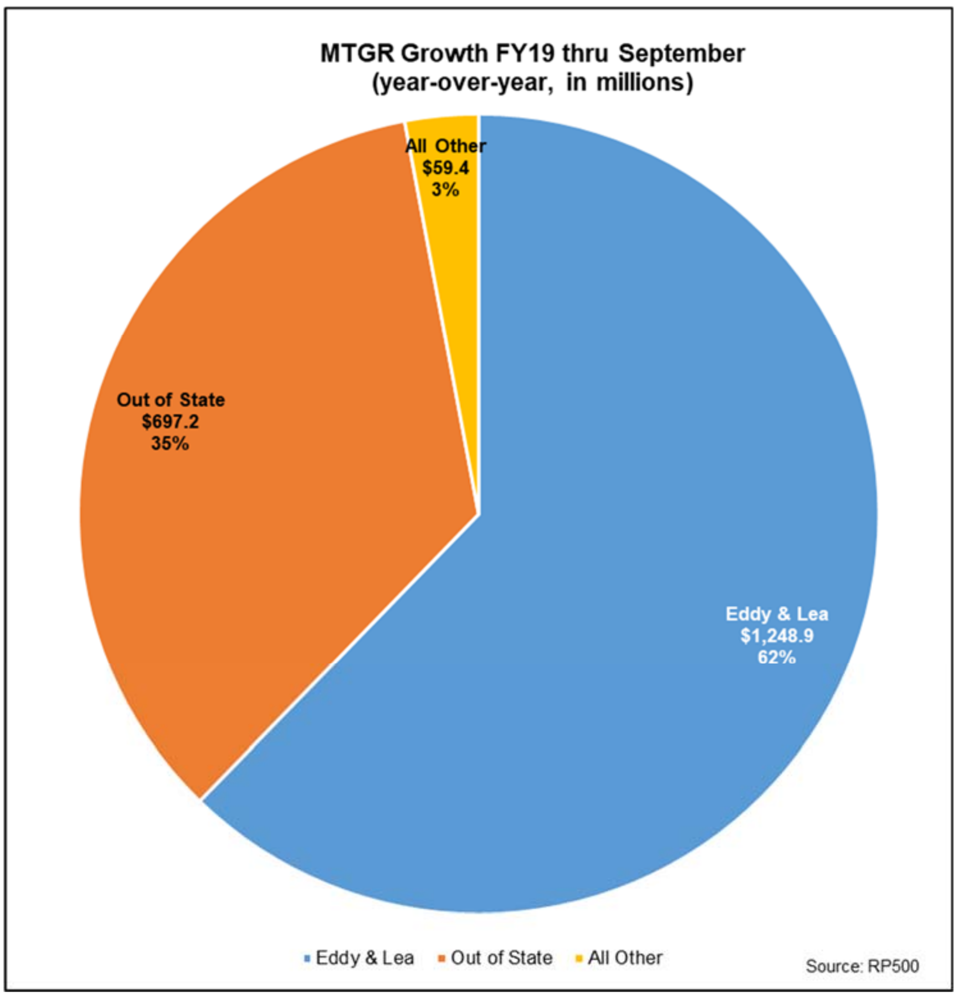
Source: Weighted oil and gas prices derived from EIA, GI and NYMEX Forecasts; Updated 12/5/2018

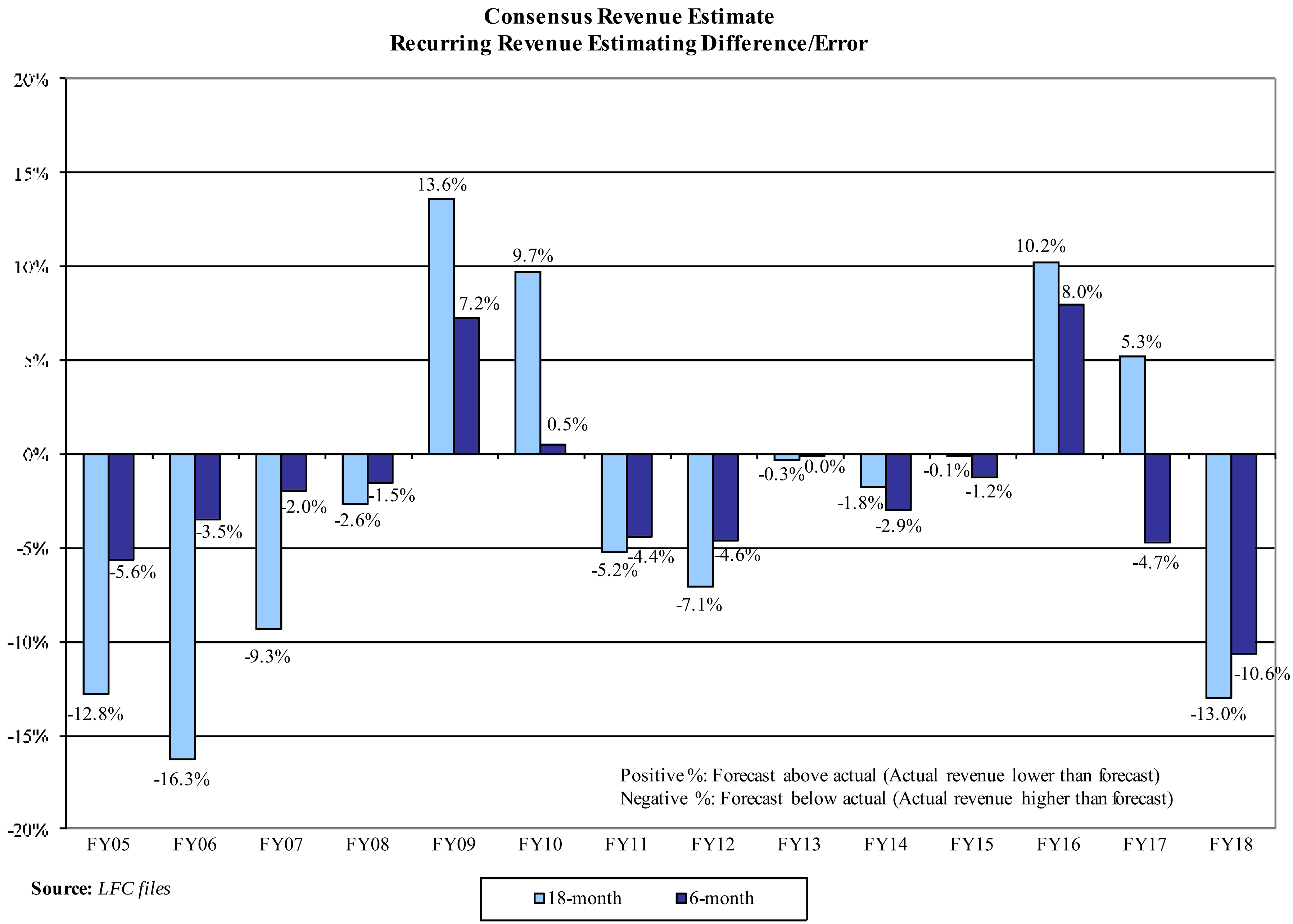

Top Oil-Producing States (Thousand Barrels per Day)
January 2011 through September 2018
Thousand Barrels per Day (Excluding Texas)
Texas (thousand barrels per day)
1600
1400
1200
1000
800
600
400
200
0
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
0
Jan-2011
May-2011
Sep-2011
Jan-2012
May-2012
Sep-2012
Jan-2013
May-2013
Sep-2013
Jan-2014
May-2014
Sep-2014
Jan-2015
May-2015
Sep-2015
Jan-2016
May-2016
Sep-2016
Jan-2017
May-2017
Sep-2017
Jan-2018
May-2018
Sep-2018
Alaska
North Dakota
California
New Mexico
Oklahoma
Colorado
Texas
Source: Energy Information Administration


Oil Production Growth in Top Oil Producing States
(percent growth, year-over-year, thousand barrels per day)
60%
50%
40%
30%
20%
10%
0%
-10%
15.1%
20.5%
16.7%
35.0%
31.4%
51.3%
20.9%
31.8%
31.5%
23.2%
-1.1%
-4.6%
-4.8%
-3.3%
North Dakota
Oklahoma
New Mexico
Texas
Colorado
Alaska
California
FY18 YOY Growth
July 2018 - Sep 2018 YOY Growth
Source: LFC analysis based on Energy Information Administration data

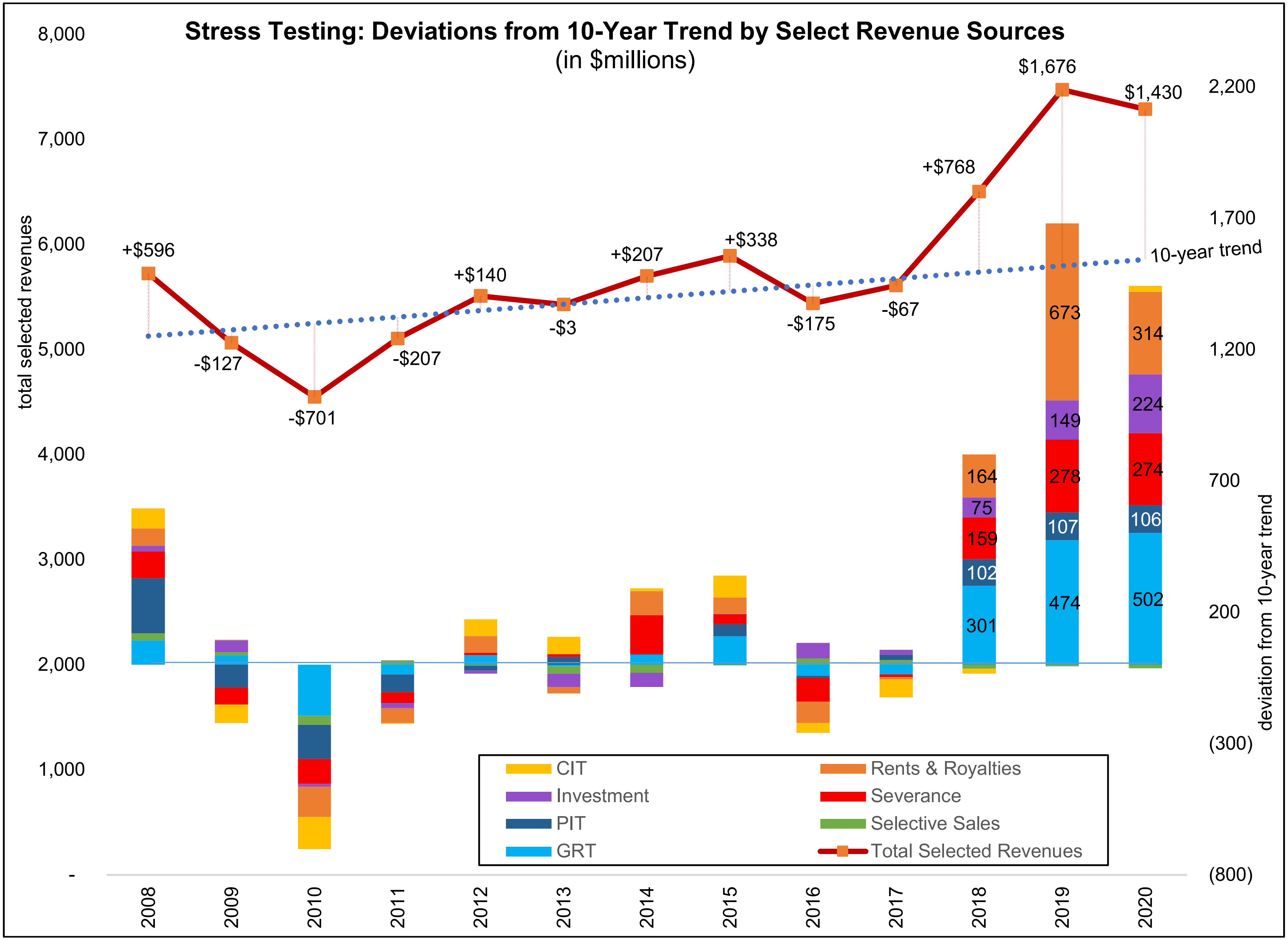
Matched Taxable Gross Receipts by Industry - September 2018			
Industry	**Matched Taxable Gross Receipts**	**Year-over-Year Growth**	**Year-over-Year Change**
Mining, Quarrying, and Oil and Gas Extraction	$1,617,116,983	$716,309,013	79.5%
Utilities	$670,542,619	-$5,554,769	-0.8%
Construction	$1,905,135,813	$98,793,192	5.5%
Manufacturing	$483,149,934	$106,906,225	28.4%
Wholesale Trade	$819,723,232	$219,425,405	36.6%
Retail Trade	$3,329,496,932	$155,846,487	4.9%
Transportation and Warehousing	$261,141,056	$76,130,426	41.1%
Information	$628,387,986	-$7,182,685	-1.1%
Real Estate and Rental and Leasing	$419,930,861	$60,568,259	16.9%
Professional, Scientific, and Technical Services	$1,825,618,469	$78,611,610	4.5%
Administrative/Support & Waste Management/Remediation	$390,223,722	$96,017,518	32.6%
Health Care and Social Assistance	$791,052,059	$33,334,756	4.4%
Leisure and Hospitality Services	$1,268,327,429	$111,252,952	9.6%
Other Industries	$1,606,593,573	$120,823,941	n/a
Total	**$16,016,440,668**	**$1,861,282,330**	**11.1%**

Source: RP500

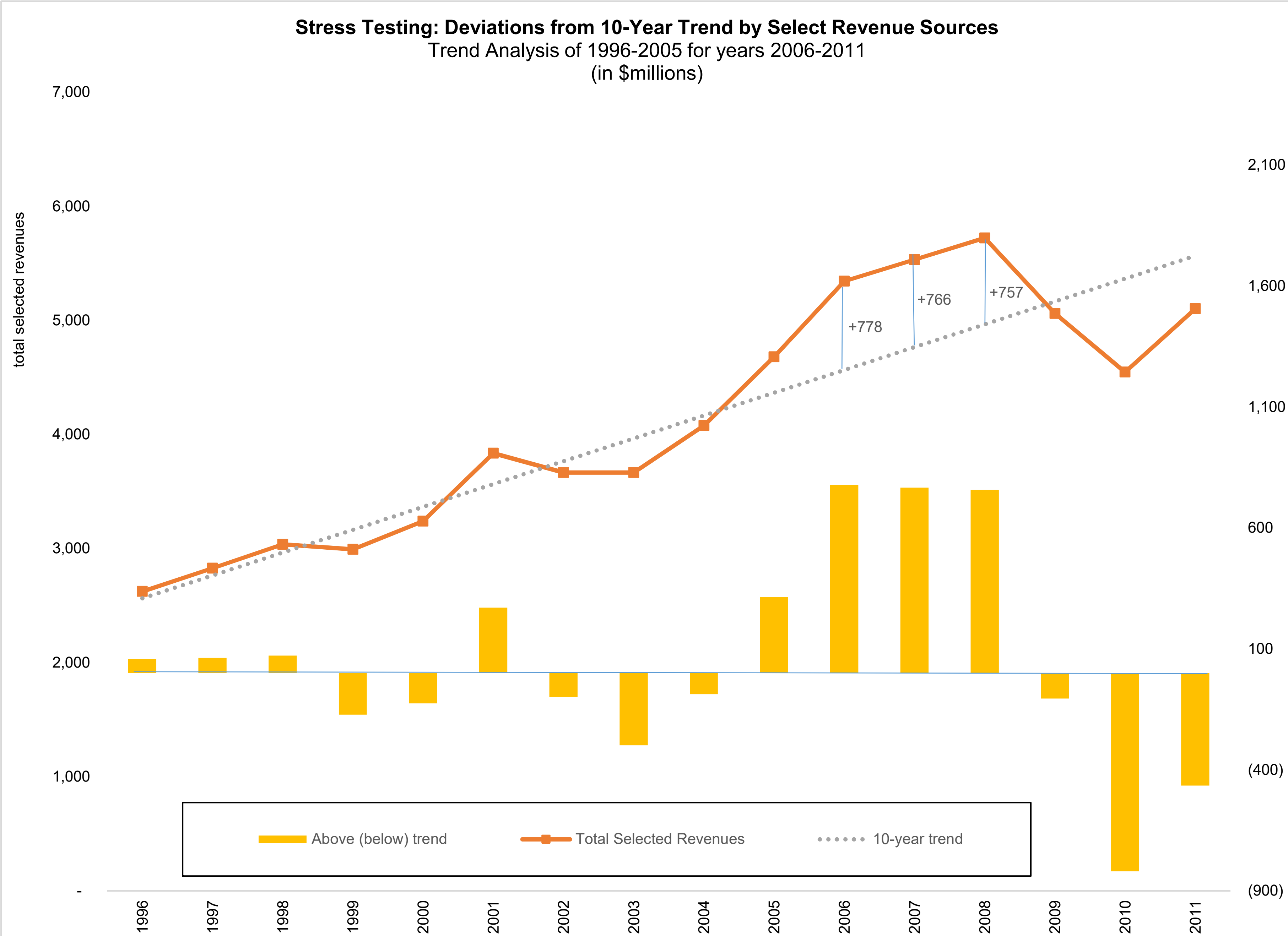




Source: *LFC files*


Stress Testing: Deviations from 10-Year Trend by Select Revenue Sources
(in $millions)
total selected revenues
deviation from 10-year trend
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
2,200
1,700
1,200
700
200
(300)
(800)
+$596
-$127
-$701
-$207
+$140
-$3
+$207
+$338
-$175
-$67
+$768
$1,676
$1,430
10-year trend
164
75
159
102
301
673
149
278
107
474
314
224
274
106
502
CIT
Investment
PIT
GRT
Rents & Royalties
Severance
Selective Sales
Total Selected Revenues
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020

Attachment 12



December 2018 Forecast of Capital Outlay Available

(in millions)

		FY19		FY20		FY21		FY22		FY23
Severance Tax Bonding (STB)										
Senior Long-Term Issuance (Bonds)	$	235.0	$	235.0	$	235.0	$	235.0	$	235.0
Senior Sponge Issuance (Notes)	$	77.2	$	116.0	$	106.6	$	108.2	$	99.9
Subtotal Senior STB Capacity	**$**	**312.2**	**$**	**351.0**	**$**	**341.6**	**$**	**343.2**	**$**	**334.9**
Authorized but Unissued STB Projects*	$	18.3	$	-	$	-	$	-	$	-
Reassigned STB Projects**	$	0.9	$	-	$	-	$	-	$	-
9% of Senior STB for Water Projects	$	28.1	$	31.6	$	30.7	$	30.9	$	30.1
4.5% of Senior STB for Colonias Projects	$	14.1	$	15.8	$	15.4	$	15.4	$	15.1
4.5% of Senior STB for Tribal Projects	$	14.1	$	15.8	$	15.4	$	15.4	$	15.1
Net Senior STB Capacity	**$**	**236.8**	**$**	**287.8**	**$**	**280.1**	**$**	**281.4**	**$**	**274.6**
Supplemental Long-Term Issuance (Bonds)	$	-	$	-	$	-	$	-	$	-
Supplemental Sponge Issuance (Notes)										
PSCOC Public School Capital	$	156.8	$	187.5	$	184.9	$	224.8	$	232.6
PED Instructional Materials/Transportation***	$	25.0	$	25.0	$	25.0	$	-	$	-
Supplemental STB Capacity	**$**	**181.8**	**$**	**212.5**	**$**	**209.9**	**$**	**224.8**	**$**	**232.6**
Total Net Severance Tax Bond Capacity	**$**	**418.7**	**$**	**500.3**	**$**	**490.0**	**$**	**506.2**	**$**	**507.2**
Total General Obligation Bond (GOB) Capacity	**$**	**-**	**$**	**171.5**	**$**	**-**	**$**	**171.5**	**$**	**-**
Total Capacity for Statewide Capital Outlay	**$**	**236.8**	**$**	**459.3**	**$**	**280.1**	**$**	**452.9**	**$**	**274.6**

*Includes projects authorized that have not yet met requirements for project funding.

**Includes projects that have remained inactive for a period of at least 18 months following bond issuance for which the proceeds have been reassigned to ready projects.

***The Legislature may appropriate up to $25 million of the supplemental capacity for transportation or instructional materials.

Sources: Department of Finance and Administration and LFC Files