LFC Hearing Brief

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

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.

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

	FY18	FY19	FY20	FY21
December 2017 Consensus	$6,090.7	$6,281.3	$6,489.6	$6,638.0
2018 Session Adjustments	$157.9	$93.3	$82.4	$163.4
2018 Session Consensus	$6,248.6	$6,374.6	$6,572.0	$6,801.4
Annual amount change	$363.2	$126.0	$197.4	$229.4
Annual percent change	6.2%	2.0%	3.1%	3.5%

AGENCY: Consensus Revenue Estimating Group

DATE: January 25, 2018

PURPOSE OF HEARING:
General fund consensus revenue update for 2018 session

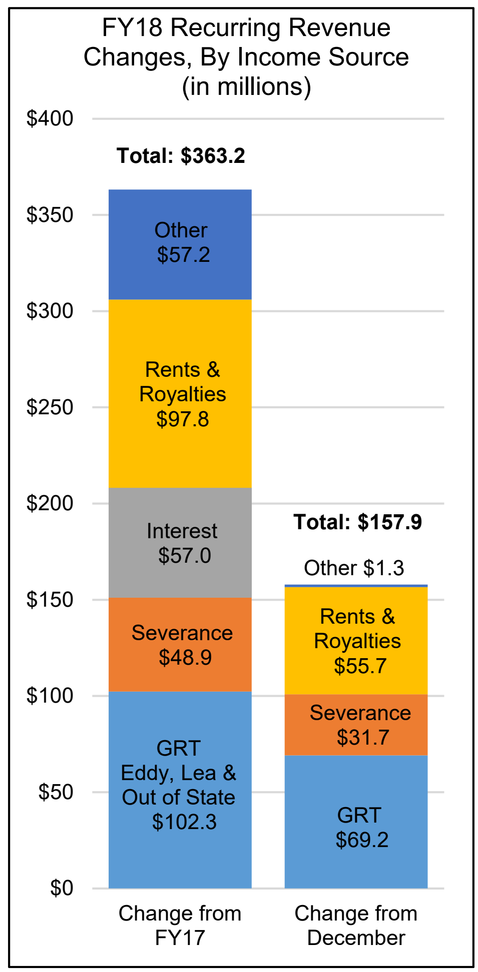
PREPARED BY: Jon Clark, Chief Economist, and Dawn Iglesias, Economist

EXPECTED OUTCOME:
Informational

Summary

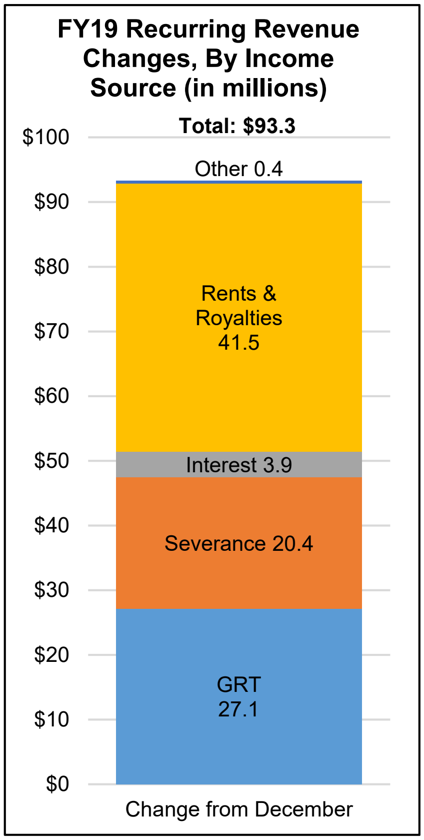
The December 2017 consensus revenue estimate was a cautious estimate due to a sudden, remarkable spike in revenues with little underlying economic data to explain it other than gross state product (GSP), which was heavily influenced by rising oil prices and production. Now, with additional months of data and even higher oil prices and production, the consensus revenue estimating group (CREG) is adding to the estimate $157.9 million in recurring revenue and $31 million in nonrecurring revenue in FY18, for a total increase of $188.9 million. CREG is also adding $93.3 million in recurring revenue to the FY19 estimate. However, the risks expressed in the December 2017 forecast are now greater, and there is a need to be cautious in spending these additional revenues, particularly for use in building recurring budgets.

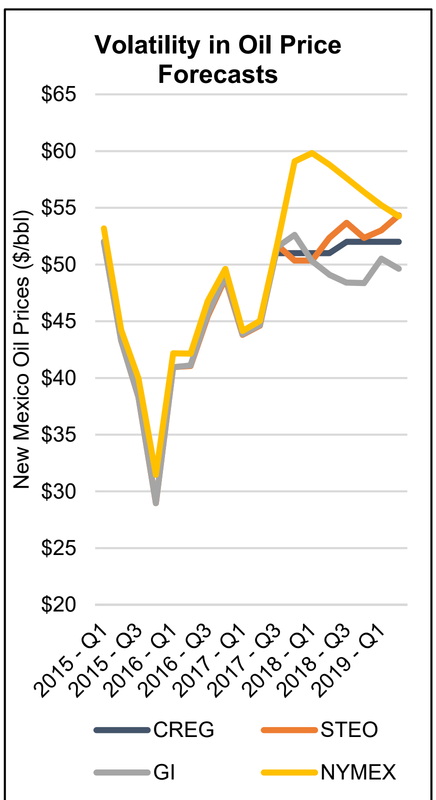
In December, economists stressed the importance of growing reserves to 10 percent or more. However, these revenue increases are almost entirely due to the oil and gas sector, making the state even more dependent on this highly volatile industry, creating a need for increasing reserves to offset this risk. Moody's Analytics reported in 2017 New Mexico would need 17 percent reserves to withstand a severe recession; due to the revenue risks the state faces, gradually moving in that direction would seem fiscally prudent.



United States and New Mexico Economic Forecast

National and state-level economic indicators are largely unchanged from the December forecast. Both Moody's Analytics and the UNM Bureau of Business and Economic Research (BBER) slightly increased their forecasts for New Mexico non-agricultural employment for FY18 and FY19, with growth now





Note: STEO, GI and NYMEX includes actual and estimated differentials from WTI ptices.

averaging 1.1 percent and 1.3 percent, respectively. BBER significantly revised their forecast for GSP for FY18, now up to 3.2 percent from 0.9 percent in their October forecast. Moody's, however, still projects growth for GSP to be 1.7 percent in FY18. Both forecasts revised projections for New Mexico personal income growth and total wages and salaries downward for FY18, though a slight pick-up in total wages and salaries is expected in FY19. Nationally, projections for growth in U.S. inflation, and the federal funds rate are mostly unchanged for FY18 and FY19, and real GDP growth expectations are up slightly for FY19.

The updated consensus revenue estimates are supported by the lack of significant change in the underlying economic data from the last forecast. As illustrated in the chart on page one, virtually all of the growth in revenues from the December forecast is due to energy-related revenues, with growth in severance tax collections and rents and royalties alone accounting for over half the growth. About 70 percent of the year-over-year growth in FY18 revenues is due to gains in severance tax collections, oil and gas related rents and royalties, and gross receipts tax revenue from Eddy and Lea counties and out-of-state. See Attachment 3 for a snapshot of the changes in select economic indicators from the last consensus forecast.

Energy Sector Rebound Driving Large Revenue Gains

In the last six months, oil futures prices increased substantially, with West Texas Intermediate (WTI) rising to nearly $65 per barrel in late January, up from about $57 in November and $47 in July (New Mexico prices are typically about $4 below WTI). At the same time, monthly New Mexico oil production in FY18 to date is well above FY17 production, which reached record highs. Data from the New Mexico Oil Conservation Division (OCD) shows FY18 production through November is up 20 percent year-over-year, with New Mexico producing almost 16 million barrels of oil in October 2017. Most recent data from the Energy Information Administration (EIA) continues to show New Mexico is now the third largest oil-producing state in the country. Baker Hughes data indicates the state now has an average of 80 active rigs for January, compared to the average 68 rigs in November when the last revenue forecast was completed.

FY	2017	*2018*	*2019*
	Actual	***Forecast***	***Forecast***
Oil Price ($/bbl)	45.00	51.00	52.00
Oil Volume (MMbbls)	153	167.5	175
Natural Gas Price ($/mcf)	3.26	3.25	3.25
Natural Gas Volume (bcf)	1,220	1,244	1,265

Increased oil price expectations and rising oil production accounts for over 90 percent of the change in the severance tax revenues for FY18 and FY19 (see *Severance Taxes* section on page 4).

Revenue Risks

Oil Prices and Volumes – Significant Upside and Downside Risk

This revenue update was faced with a fairly large discrepancy between oil price expectations by the major forecasting agencies (EIA, IHS Global Insight, and Moody's) and the NYMEX futures prices, with EIA and GI expectations well below NYMEX futures in the near term. If the consensus forecast had put more weight on NYMEX futures in the near term, oil price expectations would be higher along with associated revenues. However, higher prices in the near term could incentivize a sharp rise in global supply that significantly outpaces global demand, which could quickly send prices back down. This dynamic adds greater uncertainty to the oil price expectations.

Large Gains in U.S. Oil Production May Cause Price Declines. Weekly U.S. oil production grew 12 percent in 2017. EIA data indicates the nation now produces about 9.9 million barrels of oil per day (bpd), and the International Energy Agency (IEA) expects U.S. crude output will climb above 10 million bpd in 2018. *The Wall Street Journal* reported U.S. crude output is soon expected to surpass Saudi Arabia, which would make the U.S. the second largest oil producer in the world. Production growth in shale oil alone is expected to surpass Saudi Arabia's oil production growth in the next year. IEA states U.S. oil production will account for 80 percent of the global oil production increase by 2025.

Even with surging production, the U.S. still has potential to substantially increase output in the near term, above already high expectations. The number of drilled-but-uncompleted wells (DUCs) in the U.S. more than doubled in the last year, rising to almost 7,500 in December 2017, with 2,777 in the Permian alone. A high inventory of DUCs means the U.S. could quickly raise oil supply with or without significant changes in the number of active drilling rigs. In its January 2018 *Oil Market Report*, IEA stated global oil demand is expected to slow down in 2018. Without significant demand growth, temporary rising oil prices could spur too much growth in U.S. production, and the market could be thrown off-balance, sending prices downward.

Asymmetrical Risk. As the most significant risk to the forecast, given the sharp increases in FY18 revenues due to recent gains, it is important to note oil industry volatility carries both upside and downside risks. While prices could easily fall again, it is also possible prices could continue to rise, and production volumes could change from a trend of increasing at a steady rate to increasing at a rising rate, much like the state witnessed before the oil price crash that started in 2015. However, the upside risk would simply add to reserves, a goal many economists believe is highly desirable. The downside risk could pull hundreds of millions of dollars out of the forecast. If this were the only negative impact, general fund reserves would hopefully be able to withstand this decline; however, if this occurs in combination with a recession, loss of one or more significant tax protests, or some other negative impact, this could overwhelm reserves and require revenue increases or budget cuts. The budget risk is highly asymmetrical.

Tax Protests

Another significant risk is the tax revenue under protest, which totaled $455 million by January 2018, according to testimony by the Taxation and Revenue Department (TRD). Much of this is the result of different interpretations of statute, typically tax expenditures, by industry and the department. Industry claims the department is interpreting statutes too narrowly, while the department seems to view many of these claims as attempts to create and exploit loopholes in the tax code. LFC staff repeatedly requested detailed information on tax protest history from TRD to be able to better determine how the current risk compares to historical risks and what tax programs and tax expenditures are at issue. However, to date, TRD has provided very little of the requested information.

Additional Revenue Risks

Federal Laboratories

Currently, the for-profit management status of the national laboratories allows the state to collect GRT revenues that would be lost if new management contracts were given to nonprofit organizations. Prior LFC estimates indicated a loss of about $24 million with a switch at Los Alamos National Laboratory (LANL), although the loss is now thought to likely be higher by a couple to several million dollars. The current LANL management contract expires September 30, 2018, and the Department of Energy anticipates announcing the winner of the new contract in February.

Tax Expenditure Risks

As LFC economists always note, there is substantial revenue risk resulting from the wide array of tax expenditures currently in existence and from any new tax expenditures that may be enacted.

The LFC tax expenditure policy principles require any new tax expenditure proposal to be thorough vetted by interim committees, and TRD should be given enough time for an in-depth analysis of any possible loopholes, uncertainty, or confusion that may be created.

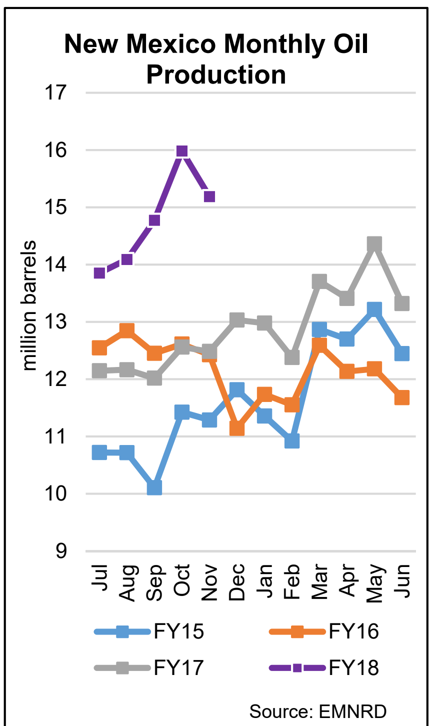
Economic Indicators

One key economic indicator released after the economic forecasts used by CREG provides some cause for concern. The state GDP growth for the second quarter of 2017 was 4.5 percent – a significant improvement and a standout nationally. However, the preliminary state GDP for the third quarter of 2017, released on January 24, fell to 1.7 percent – the fourth worst in the country.

High Dollar Value Protest Risks

TRD reported the value of protests for the gross receipts tax (GRT) deduction for chemicals and reagents reached about $165 million. Industry professionals and others involved with taxes and litigation report there could also be:

- About $50 million at risk for the state's collection of corporate income taxes on foreign dividends,
- Tens of millions of dollars at risk due to possible under-distribution of GRT revenues to local governments,
- Millions or tens of millions of dollars at risk from claims related to the 2016 AHO decision and order allowing Health South to qualify for the healthcare practitioner deduction (corrected by a law change in the 2016 special session), and
- Millions of dollars at risk related to the high-wage jobs tax credit (presumably mostly claims for credits accrued prior to another law change in the 2016 special session).



CREG attempted to incorporate protest risks into the forecast, but with very little information available, it is nearly impossible to quantify the potential risk for many of the protest issues and even more difficult to put an expected number to a possible loss. However, it is important to note that the amount under protest does not represent the total possible loss for the state – if one taxpayer protested an issue and wins, either at the Administrative Hearings Office (AHO) or in court, the state should expect the possibility of a flurry of claims by other taxpayers in that industry. Additionally, taxpayers can amend returns for up to three years back plus year-to-date, and if a taxpayer wins a protest, they are likely to immediately amend to receive payment for additional amounts accrued since the protest was filed. All of this can mean the final cost to the state of losing a protest can be a multiple of the value at issue in protest filings.

Federal Tax Reform

In December, LFC staff requested TRD analyze the impact to the state and its citizens of the federal Tax Cuts and Jobs Act (tax reform) and provide guidance to the Legislature. TRD is modeling the impact but does not yet have any impact estimates available for release. Therefore, this was not incorporated into this revenue update. This could present upside and downside risks to the forecast, but hopefully TRD will report their estimates to the Legislature prior to the conclusion of the session, accompanied by any recommendations to mitigate the impact to the state or its taxpayers if there would be substantial gains or losses.

Reporting and 60-Day Money and Other Credits Risk

It appears one or more taxpayers is still incorrectly submitting personal income tax (PIT) withholding payments that are being booked temporarily in the 60-day money and other credits line that is added to GRT. It is unclear why this continues to happen after TRD attempted to correct this, and it is uncertain why a taxpayer would do this intentionally, but this ongoing issue slightly distorts monthly GRT and PIT revenue data until TRD periodically manually searches for and corrects the issue and reports the necessary corrections to the economists. Apart from that issue, there was a spike of $17 million in 60-day money and other credits in November 2017, making GRT appear strikingly high. This revenue line is typically a much smaller amount and negative, so this is a significant anomaly, and TRD is researching to try to discern what caused the sharp increase.

General Fund Revenue Forecast

Severance Taxes. Increased oil price expectations and rising oil production accounts for over 90 percent of the change in the severance tax revenues for FY18 and FY19. For FY18, the consensus forecast adds over $30 million in severance tax revenue and over $55 million in rents and royalty income.

Natural gas production also appears to be increasing over FY17 at a slightly faster rate than expected in the December forecast, resulting in some upward revision to the natural gas volumes estimates. The increase in total volumes is due in part to the increasing amounts of associated gas produced from oil wells.

Excess Oil & Gas Revenues to Rainy Day Fund. Legislation passed in the 2017 special session (Chapter 3, House Bill 2) provided for a distribution of revenue from the oil and gas emergency school tax in excess of the five-year average to flow to the tax stabilization reserve. Based on upward revisions to price and production estimates, the consensus forecast projects the law's provisions will take effect in FY19, sending an estimated $15.5 million to the reserve fund that fiscal year. If the forecasts hold, this provision will send over $130 million to reserves by the end of FY22. The Legislature may also want to consider taking similar measures for revenues from oil and gas rents and royalties, perhaps by sending revenues from federal mineral leasing (FML) payments in excess of the three- or five-year average to reserves.

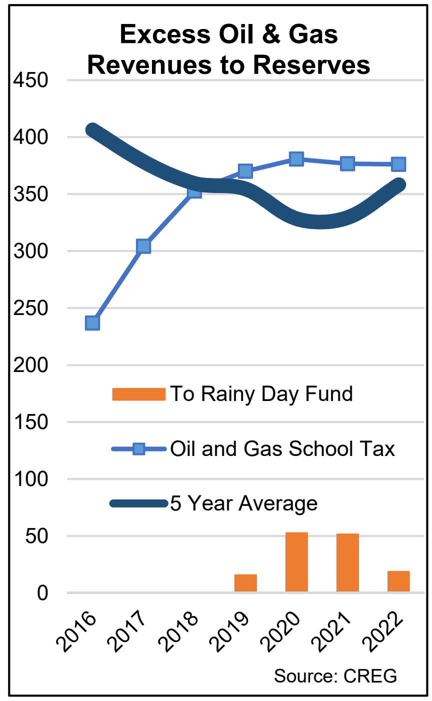
Rents and Royalties. Revenues for oil and gas bonuses on state lands have also grown more than previously expected, with general fund income exceeding $80 million by January. Therefore, CREG increased its expectation for FY18 general fund revenues to an estimated total of $95 million. While the Permian basin in southeast New Mexico is expected to remain a desirable location for shale oil and gas production, much of the strength in bonus payments are due to the leasing of prime land parcels in this region, many of which are now leased for the next five years. It is unclear at this point whether the state can continue to expect such high oil and gas bonuses revenue in future years, which contributes to the estimated drop-off in expected State Land Office income in FY19 and beyond.

Upward revisions to oil price and volumes also lead to increased estimates for FML payments, which are partially based on the value of oil and gas production. The updated forecast adds about $37 million in FY18 and $47 million in FY19 for FML revenues. Additionally, the Bureau of Land Management (BLM) announced the results of a second lease sale in December 2017, which should result in an additional $15 million for the state. Both the December sale and the previous September 2017 sale (totaling about $64 million for the state) are currently under protest and no payment has been received. Given the FY17 experience of delays in receiving revenues from lease sales under protest, the forecast assumes the revenue from the September sale will be received in FY18 and revenue from the December sale will be received in FY19. However, depending on the outcome of the protests, it is possible that the lease sale payments could be reduced.

Gross Receipts Taxes (GRT)

Virtually all of the GRT revenue increase in this update can be attributed to oil and gas and supporting industries. As the graph on page 11 shows, a reasonable estimate of the year-over-year GRT revenue increases attributable to most of the state from FY16 through FY18 remained relatively stable; what changed was the revenue that could reasonably be attributed to Eddy, Lea, and San Juan counties and out of state (primarily supporting oil and gas). Thus, not only is the oil and gas industry directly linked to the increases in most of the revenue sources that changed in this update, but that industry can also be linked to most, if not all, of the increase in GRT revenue from the December forecast to this update. It also clearly shows the oil price collapse pulled about $200 million out of GRT in FY16 in addition to all the losses in revenues more obviously tied to the oil industry.

The matched taxable gross receipts graph on page 12 illustrates the state's GRT is becoming more and more dependent on the extractives industry, and that industry is responsible for more of the annual growth in gross receipts than at any time in history. Additionally, the extractives industry is adding substantially more to the overall growth than the historical average of the growth provided by all other industries combined. Some of the growth in other industries is supported by oil and gas, making the dependence on this sector even greater than it appears in the graph.



General Fund Financial Summary

The summary shown on Attachment 2 (page 7) illustrates the impact of the revenue estimates from the 2018 mid-session revenue update on reserve levels.

Revenues are expected to exceed expenditures in FY18 by $174.5 million. Total ending balances are projected at $679 million, or 11.2 percent, for FY18. New money – defined as current year revenues minus prior year appropriations – is now $292 million, or 4.8 percent.

Nonrecurring Revenue

CREG added $31 million in nonrecurring revenue to the forecast for FY18 due to additional payments received or anticipated from insurers who were determined in the recent premium tax audit to have underpaid. This is in addition to the $18.5 million included in the December forecast, where it was noted there was an upside risk for possible additional payments. This new estimate should represent the entirety of the back payments based on conversations with the Office of Superintendent of Insurance.

General Fund Consensus Revenue Estimate 2018 Mid-Session Update

Revenue Source	FY17			FY18					FY19				
	Dec 2017 Actual	% Change from FY16	$ Change from FY16	Dec 2017 Est.	2018 Session Update	Change from Prior	% Change from FY17	$ Change from FY17	Dec 2017 Est.	2018 Session Update	Change from Prior	% Change from FY18	$ Change from FY18
Base Gross Receipts Tax	2,169.2	-0.6%	(13.2)	2,247.8	2,317.0	69.2	6.8%	147.8	2,306.4	2,333.5	27.1	0.7%	16.5
60-Day Money & Other Credits	(33.0)	n/a	41.0	(53.9)	(53.9)	-	63.3%	(20.9)	(53.9)	(53.9)	-	0.0%	-
F&M Hold Harmless Payments	(122.7)	-9.2%	10.3	(129.4)	(125.2)	4.2	2.0%	(2.5)	(125.3)	(120.3)	5.0	-3.9%	4.9
NET Gross Receipts Tax	2,013.5	1.9%	38.1	2,064.5	2,137.9	73.4	6.2%	124.4	2,127.2	2,159.3	32.1	1.0%	21.4
Compensating Tax	48.5	3.5%	1.6	53.5	53.5	-	10.2%	5.0	57.8	57.8	-	8.0%	4.3
TOTAL GENERAL SALES	2,062.1	2.0%	39.8	2,118.0	2,191.4	73.4	6.3%	129.3	2,185.0	2,217.1	32.1	1.2%	25.7
Tobacco Taxes	77.9	-2.4%	(1.9)	79.4	79.4	-	1.9%	1.5	77.8	77.8	-	-2.0%	(1.6)
Liquor Excise	7.4	9.6%	0.6	23.5	23.5	-	218.4%	16.1	25.3	25.3	-	7.7%	1.8
Insurance Taxes	227.5	9.4%	19.6	232.4	232.4	-	2.2%	4.9	242.3	242.3	-	4.3%	9.9
Fire Protection Fund Reversion	18.7	23.9%	3.6	17.8	17.8	-	-4.7%	(0.9)	18.3	18.3	-	2.8%	0.5
Motor Vehicle Excise	145.2	-3.4%	(5.2)	150.3	150.3	-	3.5%	5.1	155.1	155.1	-	3.2%	4.8
Gaming Excise	59.5	-5.6%	(3.5)	62.5	59.6	(2.9)	0.1%	0.1	63.2	58.6	(4.6)	-1.7%	(1.0)
Leased Vehicle & Other	7.3	-14.7%	(1.3)	7.6	7.6	-	4.8%	0.4	7.7	7.7	-	1.3%	0.1
TOTAL SELECTIVE SALES	543.4	1.2%	6.4	573.5	570.6	(2.9)	5.0%	27.2	589.7	585.1	(4.6)	2.5%	14.5
Personal Income Tax	1,380.7	4.0%	53.5	1,381.1	1,381.1	-	0.0%	0.4	1,408.8	1,408.8	-	2.0%	27.7
Corporate Income Tax	70.2	-40.8%	(48.3)	105.0	105.0	-	49.7%	34.8	110.0	110.0	-	4.8%	5.0
TOTAL INCOME TAXES	1,450.8	0.4%	5.1	1,486.1	1,486.1	-	2.4%	35.3	1,518.8	1,518.8	-	2.2%	32.7
Oil and Gas School Tax	304.3	28.5%	67.4	322.6	352.7	30.1	15.9%	48.4	336.0	354.6	18.6	0.5%	1.9
Oil Conservation Tax	17.4	52.7%	6.0	16.7	18.3	1.6	5.4%	0.9	17.4	19.2	1.8	4.9%	0.9
Resources Excise Tax	9.6	-13.9%	(1.6)	9.3	9.3	-	-3.6%	(0.3)	9.0	9.0	-	-3.2%	(0.3)
Natural Gas Processors Tax	10.3	-49.3%	(10.0)	10.2	10.2	-	-1.1%	(0.1)	12.6	12.6	-	23.5%	2.4
TOTAL SEVERANCE TAXES	341.6	22.1%	61.8	358.8	390.5	31.7	14.3%	48.9	375.0	395.4	20.4	1.3%	4.9
LICENSE FEES	53.3	-2.7%	(1.5)	54.2	54.2	-	1.6%	0.9	55.4	55.4	-	2.2%	1.2
LGPF Interest	541.6	-2.4%	(13.6)	584.9	584.9	-	8.0%	43.4	630.8	633.6	2.8	8.3%	48.7
STO Interest	(3.2)	n/a	(24.9)	-	-	-	-100.0%	3.2	8.4	8.4	-	n/a	8.4
STPF Interest	200.4	3.6%	6.9	210.4	210.4	-	5.0%	10.0	219.5	220.6	1.1	4.9%	10.2
TOTAL INTEREST	738.3	-4.1%	(32.0)	795.3	795.3	-	7.7%	57.0	858.7	862.6	3.9	8.5%	67.3
Federal Mineral Leasing	435.7	11.7%	45.7	473.2	510.0	36.9	17.1%	74.3	472.9	520.0	47.1	2.0%	10.0
State Land Office	71.5	49.5%	23.7	76.2	95.0	18.8	32.9%	23.5	60.6	55.0	(5.6)	-42.1%	(40.0)
TOTAL RENTS & ROYALTIES	507.2	15.8%	69.4	549.4	605.0	55.7	19.3%	97.8	533.5	575.0	41.5	-5.0%	(30.0)
TRIBAL REVENUE SHARING	62.7	-2.6%	(1.7)	64.8	64.8	-	3.3%	2.1	73.1	73.1	-	12.8%	8.3
MISCELLANEOUS RECEIPTS	49.5	2.9%	1.4	50.7	50.7	-	2.5%	1.2	52.1	52.1	-	2.8%	1.4
REVERSIONS	76.5	35.7%	20.1	40.0	40.0	-	-47.7%	(36.5)	40.0	40.0	-	0.0%	-
TOTAL RECURRING	5,885.4	3.0%	168.9	6,090.7	6,248.6	157.9	6.2%	363.2	6,281.3	6,374.6	93.3	2.0%	126.0
TOTAL NONRECURRING	575.7	n/a	572.4	37.2	68.2	31.0	-88.2%	(507.5)	-	-	-	-100.0%	(68.2)
GRAND TOTAL	6,461.1	13.0%	744.6	6,127.9	6,316.8	188.9	-2.2%	(144.3)	6,281.3	6,374.6	93.3	0.9%	57.8

Note: Columns in blue show difference between January 2018 Consensus Revenue Estimate and December 2017 Consensus Revenue Estimate

Note: Columns in red show year-over-year growth expected in current January 2018 Consensus Revenue Estimate

General Fund Financial Summary:
January 2018 Mid-Session Revenue Update & LFC Budget Recommendation

(millions of dollars)

January 26, 2018	Prelim. FY2017	Estimate FY2018	Estimate FY2019
APPROPRIATION ACCOUNT			
REVENUE			
Recurring Revenue			
December 2017 Consensus Revenue Forecast	$ 5,885.4	$ 6,090.7	$ 6,281.3
2018 Mid-Session Update - Recurring Revenue	$ -	$ 157.9	$ 93.3
Total Recurring Revenue	$ 5,885.4	$ 6,248.6	$ 6,374.6
Nonrecurring Revenue			
2016 & 2017 Regular & Special Sessions Nonrecurring Revenue Legislation [1,2,4]	$ 566.2	$ 18.7	
2018 Mid-Session Update - Nonrecurring Revenue		$ 31.0	
Other Nonrecurring Revenue	$ 9.5	$ 18.5	
Total Nonrecurring Revenue	$ 575.7	$ 68.2	
TOTAL REVENUE	**$ 6,461.1**	**$ 6,316.8**	**$ 6,374.6**
APPROPRIATIONS			
Recurring Appropriations			
2016 Legislation and Feed Bill	$ 6,228.1		
2016 Special Session Recurring Appropriation Reductions [4, 5]	$ (133.9)		
2017 Regular & Special Session Legislation & Feed Bill	$ 9.5	$ 6,082.3	
2018 Session Legislation & Feed Bill [7]	$ -	$ 5.6	$ 6,260.7
Total Recurring Appropriations	$ 6,103.6	$ 6,087.8	$ 6,260.7
Nonrecurring Appropriations			
2016 Legislation & Prior Year Appropriations [6]	$ 0.4		
2016 Special Session Nonrecurring Appropriations [3, 5]	$ 2.5		
2017 Regular & Special Session Nonrecurring Appropriations	$ 23.2	$ -	
Total Nonrecurring Appropriations	$ 26.1	$ 54.5	
TOTAL APPROPRIATIONS	**$ 6,129.7**	**$ 6,142.3**	**$ 6,260.7**
Transfer to (from) Reserves	$ 331.4	$ 174.5	$ 113.9
GENERAL FUND RESERVES			
Beginning Balances	$ 147.7	$ 504.9	$ 679.0
Transfers from (to) Appropriations Account	$ 331.4	$ 174.5	$ 113.9
Revenue and Reversions	$ 78.0	$ 56.5	$ 69.7
Appropriations, Expenditures and Transfers Out	$ (52.2)	$ (57.0)	$ (36.0)
Ending Balances	**$ 504.9**	**$ 679.0**	**$ 826.5**
Reserves as a Percent of Recurring Appropriations	*8.3%*	*11.2%*	*13.2%*

"New Money" is $292, or 4.8%

Notes:

1) Laws 2016, Chapter 12 (HB311)

2) Laws 2016, Second Special Session, Chapter 4 (SB2) - $96.5 million original estimate for general fund sweeps and transfers minus $1.7 million in failed DCA AIPP sweep and minus $1.5 million in failed HED sweep for adjusted total of $93.3 million

3) Laws 2016, Second Special Session, Chapter 3 (SB6) - revenue package

4) Laws 2016, Second Special Session, Chapter 5 (SB8) - $89.8 million in capital outlay sweeps (DFA may book $56.2 million as appropriation reductions)

5) Laws 2016, Second Special Session, Chapter 6 (SB9) - appropriation reductions, not including the $22 million vetoed from the reduction to PED's special appropriations, not including $20 million of the $30 million reduced appropriation for PED for transportation and instructional materials that DFA booked as nonrecurring revenue/reversion

6) Adjusted for FY16 audit

7) FY18 feed bill cost preliminary estimate of $6.5 million, equal to prior 30-day session plus 5 percent plus $873.4 thousand for LIS

General Fund Financial Summary:
January 2018 Mid-Session Revenue Update & LFC Budget Recommendation
RESERVE DETAIL
(millions of dollars)

January 26, 2018	Prelim. FY2017	Estimate FY2018	Estimate FY2019
OPERATING RESERVE			
Beginning Balance	$ 2.0	$ 331.4	$ 503.9
BOF Emergency Appropriations/Reversions	$ (2.0)	$ (2.0)	$ (2.0)
Transfers from/to Appropriation Account	$ 331.4	$ 174.5	$ 113.9
Transfer from (to) ACF/Other Appropriations	$ -	$ -	$ -
Transfer from Tax Stabilization Reserve	$ -		
Ending Balance	$ 331.4	$ 503.9	$ 615.8
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	$ 34.4	$ 25.7	$ 17.7
Disaster Allotments	$ (13.0)	$ (16.0)	$ (16.0)
Other Appropriations	$ (0.3)	$ -	$ -
Transfers In	$ -	$ -	$ -
Revenue and Reversions	$ 4.6	$ 8.0	$ 8.0
Ending Balance	$ 25.7	$ 17.7	$ 9.7
STATE SUPPORT FUND			
Beginning Balance	$ 1.0	$ 1.0	$ 1.0
Revenues	$ -	$ -	$ -
Appropriations	$ -	$ -	$ -
Ending Balance	$ 1.0	$ 1.0	$ 1.0
TOBACCO PERMANENT FUND			
Beginning Balance	$ 110.4	$ 146.8	$ 156.3
Transfers In	$ 54.3	$ 39.0	$ 36.0
Appropriation to Tobacco Settlement Program Fund	$ (18.5)	$ (19.5)	$ (18.0)
Gains/Losses	$ 19.2	$ 9.5	$ 10.2
Additional Transfers from TSPF	$ (18.5)	$ (19.5)	$ -
Transfer to General Fund Appropriation Account	$ -	$ -	$ -
Ending Balance	$ 146.8	$ 156.3	$ 184.5
TAX STABILIZATION RESERVE			
Beginning Balance	$ -	$ -	$ -
Transfers In [1]	$ -	$ -	$ 15.5
Transfer Out to Operating Reserve	$ -	$ -	$ -
Ending Balance	$ -	$ -	$ 15.5
GENERAL FUND ENDING BALANCES	**$ 504.9**	**$ 678.9**	**$ 826.5**
Percent of Recurring Appropriations	*8.3%*	*11.2%*	*13.2%*

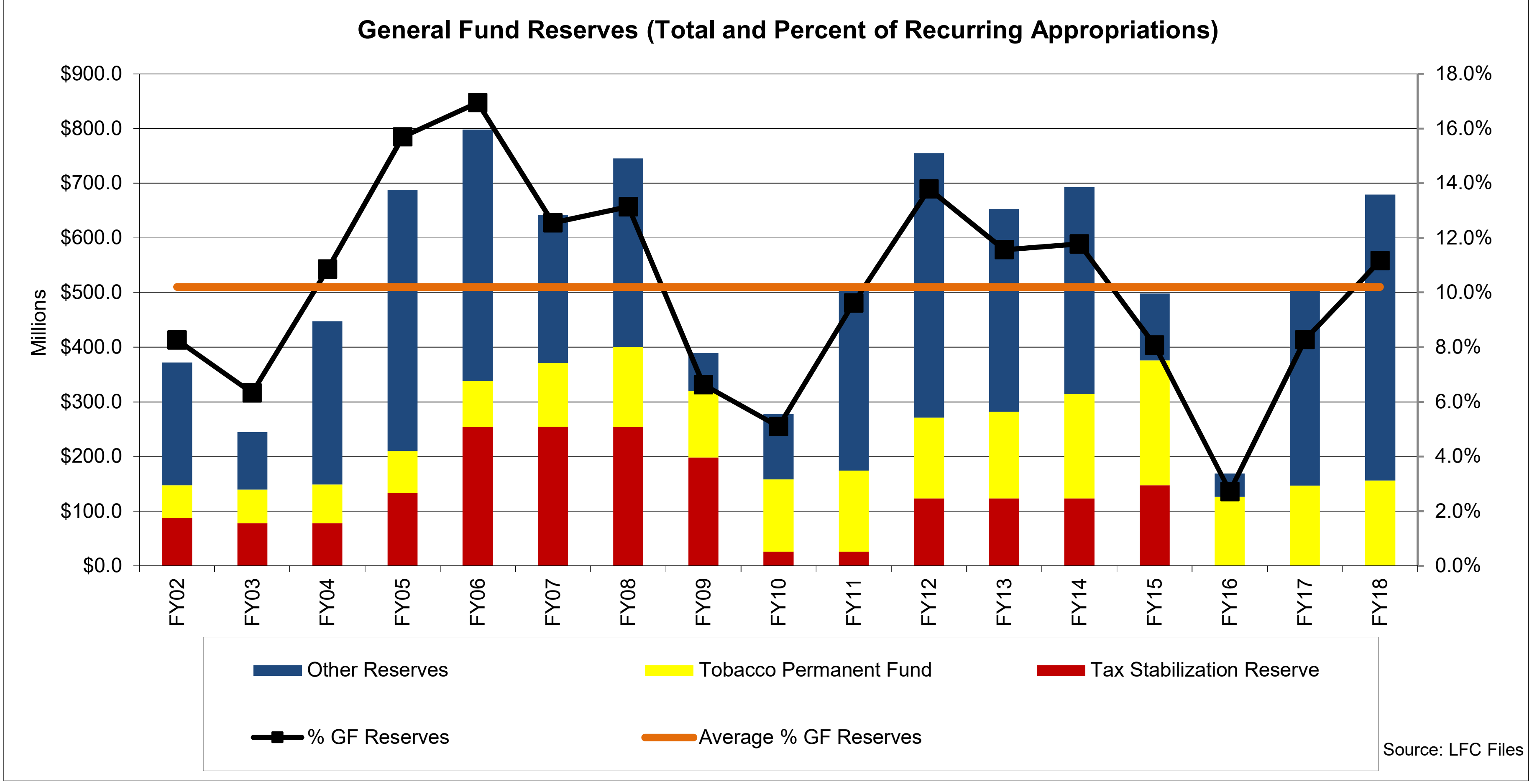
Notes:

U.S. and New Mexico Economic Indicators

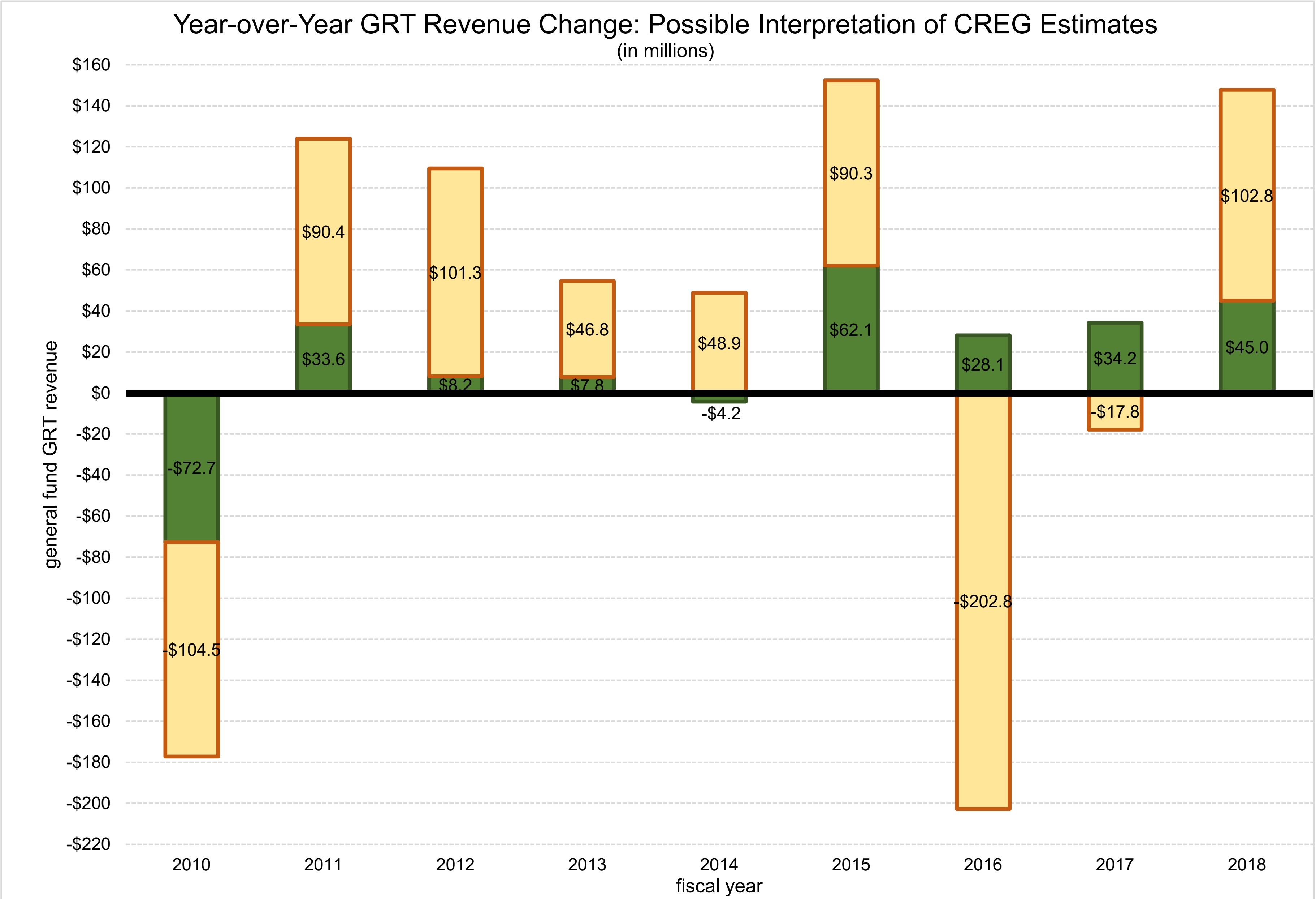
		FY17		FY18		FY19		FY20		FY21		FY22	
		Dec 17 Forecast	Jan 17 Forecast	Dec 17 Forecast	Jan 17 Forecast	Dec 17 Forecast	Jan 17 Forecast	Dec 17 Forecast	Jan 17 Forecast	Dec 17 Forecast	Jan 17 Forecast	Dec 17 Forecast	Jan 17 Forecast
	National Economic Indicators												
GI	US Real GDP Growth (annual avg. ,% YOY)*	1.9	1.9	2.5	2.6	2.3	2.6	2.2	2.3	2.0	1.8	2.1	1.9
Moody's	US Real GDP Growth (annual avg. ,% YOY)*	1.9	1.9	2.7	2.7	2.6	2.8	1.4	1.3	1.6	1.7	2.6	3.1
GI	US Inflation Rate (CPI-U, annual avg., % YOY)**	1.9	1.9	1.8	1.9	2.0	1.6	2.4	2.5	2.6	2.8	2.4	2.4
Moody's	US Inflation Rate (CPI-U, annual avg., % YOY)**	1.9	1.9	2.0	2.1	2.6	2.6	2.8	2.7	2.6	2.4	2.3	2.2
GI	Federal Funds Rate (%)	0.6	0.6	1.3	1.4	2.0	2.2	2.6	2.8	3.1	3.3	3.2	3.4
Moody's	Federal Funds Rate (%)	0.6	0.6	1.4	1.4	2.7	2.6	3.7	3.8	3.5	3.5	3.0	3.1
	New Mexico Labor Market and Income Data												
BBER	NM Non-Agricultural Employment Growth (%)	0.0	0.1	0.5	0.9	1.1	1.2	1.2	1.2	1.1	1.1	1.0	1.0
Moody's	NM Non-Agricultural Employment Growth (%)	0.6	0.6	0.7	1.3	1.0	1.3	0.4	0.4	0.2	0.2	0.9	1.1
BBER	NM Nominal Personal Income Growth (%)***	1.4	1.4	2.0	1.2	2.7	2.7	3.7	3.7	4.4	4.2	4.5	4.6
Moody's	NM Nominal Personal Income Growth (%)***	1.4	1.4	2.4	1.3	2.6	2.4	3.2	3.2	3.3	3.3	3.6	3.7
BBER	NM Total Wages & Salaries Growth (%)	1.0	0.6	2.2	1.7	3.5	4.0	3.7	4.2	3.7	4.0	3.6	3.7
Moody's	NM Total Wages & Salaries Growth (%)	1.0	1.0	3.0	1.5	3.2	3.5	3.3	2.2	2.2	2.2	2.8	3.1
BBER	NM Private Wages & Salaries Growth (%)	0.6	0.4	2.5	2.5	4.0	4.4	4.2	4.5	4.2	4.4	4.0	4.1
BBER	NM Real Gross State Product (% YOY)	0.5	1.0	0.9	3.2	1.6	1.6	2.4	2.0	2.4	1.9	2.2	1.7
Moody's	NM Real Gross State Product (% YOY)	0.4	0.4	1.7	1.7	1.6	1.9	0.7	1.5	1.5	1.5	2.6	3.0
CREG	NM Oil Price ($/barrel)	$45.00	$45.00	$47.50	$51.00	$49.50	$52.00	$50.50	$54.00	$51.50	$54.00	$52.50	$54.00
BBER	Oil Volumes (million barrels)	152.5	152.5	153.5	163.1	157.6	168.9	161.9	174.7	167.6	179.7	172.2	184.4
CREG	NM Taxable Oil Volumes (million barrels)	153.0	153.0	158.0	167.5	162.0	175.0	165.0	175.0	168.0	175.0	170.0	175.0
	NM Taxable Oil Volumes (%YOY growth)			3.3%	9.5%	2.5%	4.5%	1.9%	0.0%	1.8%	0.0%	1.2%	0.0%
CREG	NM Gas Price ($ per thousand cubic feet)****	$3.26	$3.26	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.20	$3.20	$3.20	$3.20
BBER	Gas Volumes (billion cubic feet)	1,219	1,219	1,207	1,239	1,192	1,231	1,175	1,216	1,161	1,173	1,144	1,146
CREG	NM Taxable Gas Volumes (billion cubic feet)	1,220	1,220	1,230	1,244	1,220	1,265	1,200	1,275	1,190	1,269	1,180	1,262
	NM Taxable Gas Volumes (%YOY growth)			0.8%	2.0%	-0.8%	1.7%	-1.6%	0.8%	-0.8%	-0.5%	-0.8%	-0.6%

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 - January 2018 FOR-UNM baseline. Global Insight - January 2018 baseline.

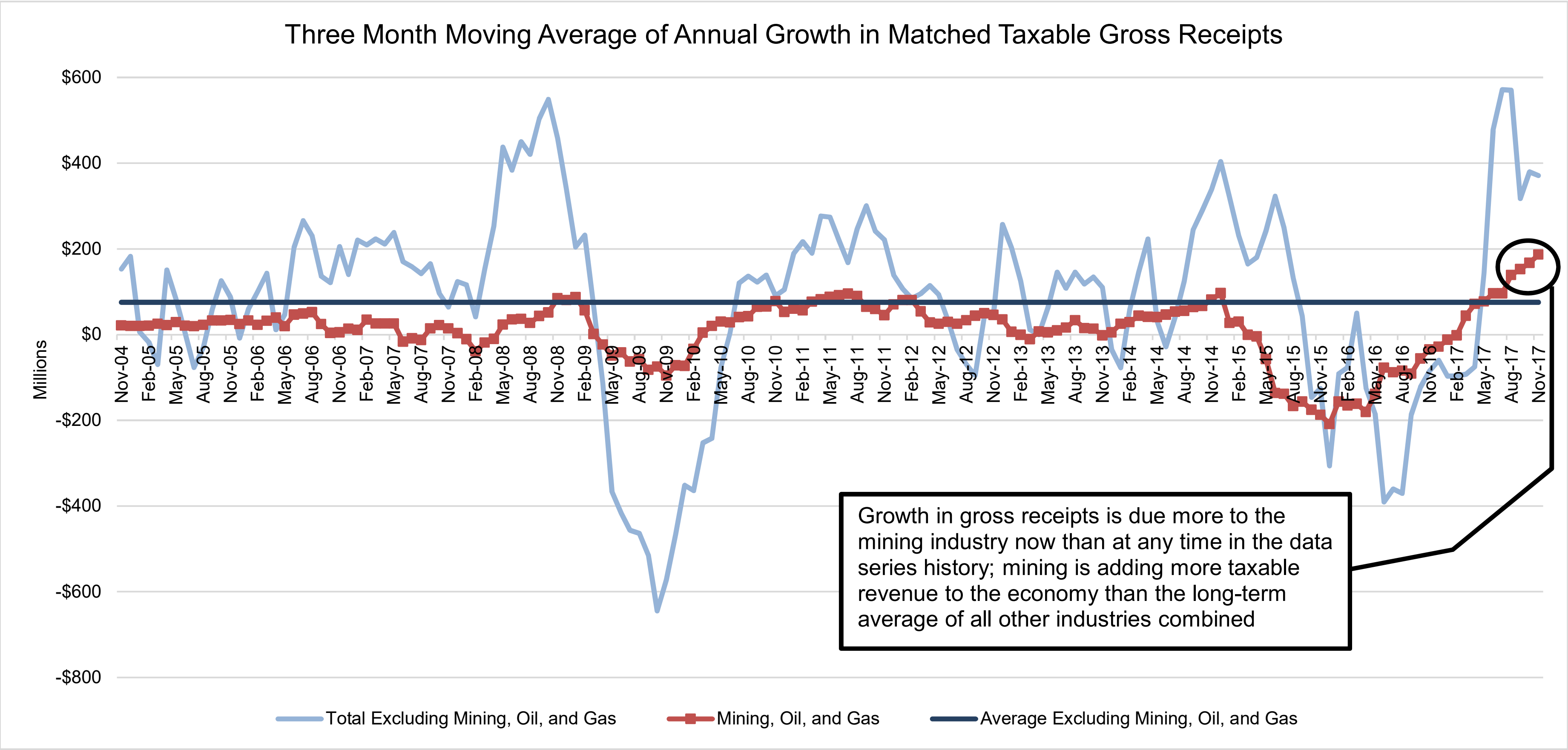
DFA Notes
* Real GDP is BEA chained 2005 dollars, billions, annual rate
** CPI is all urban, BLS 1982-84=1.00 base.
***Nominal Personal Income growth rates are for the calendar year in which each fiscal year begins
*****The gas prices are estimated using a formula of NYMEX, EIA, and Moodys (June) future prices as well as a liquid premium based on oil price forecast
Sources: January 2018 Moody's economy.com baseline



Source: LFC Files



Sources: TRD, DFA, and LFC files; CREG does not release consensus estimates of GRT by county, but this is a reasonable interpretation of the estimates


Three Month Moving Average of Annual Growth in Matched Taxable Gross Receipts
$600
$400
$200
$0
-$200
-$400
-$600
-$800
Millions
Nov-04
Feb-05
May-05
Aug-05
Nov-05
Feb-06
May-06
Aug-06
Nov-06
Feb-07
May-07
Aug-07
Nov-07
Feb-08
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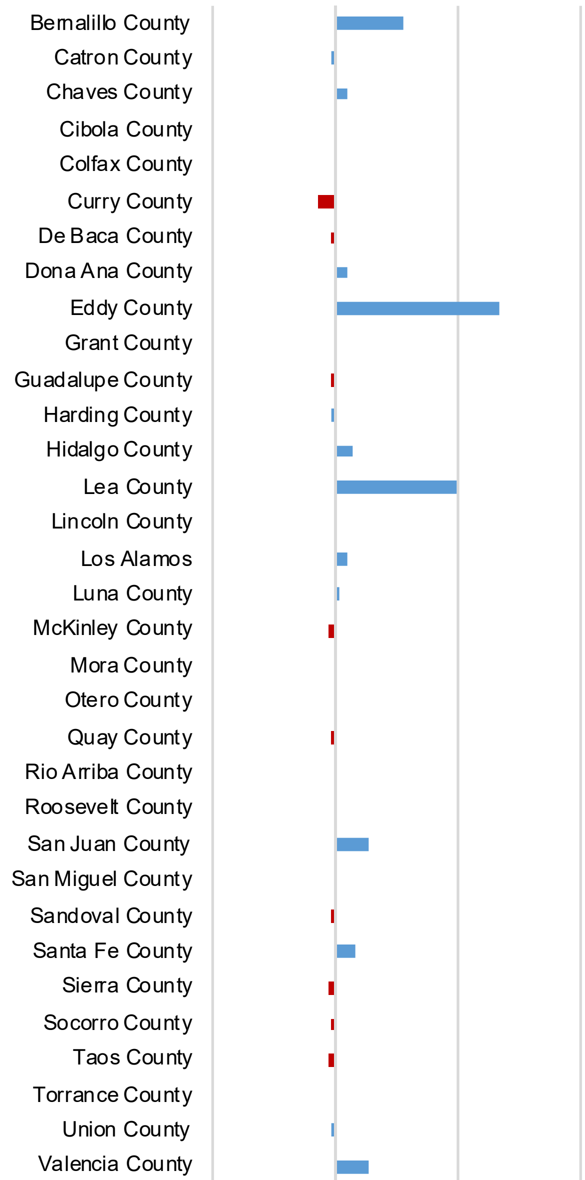
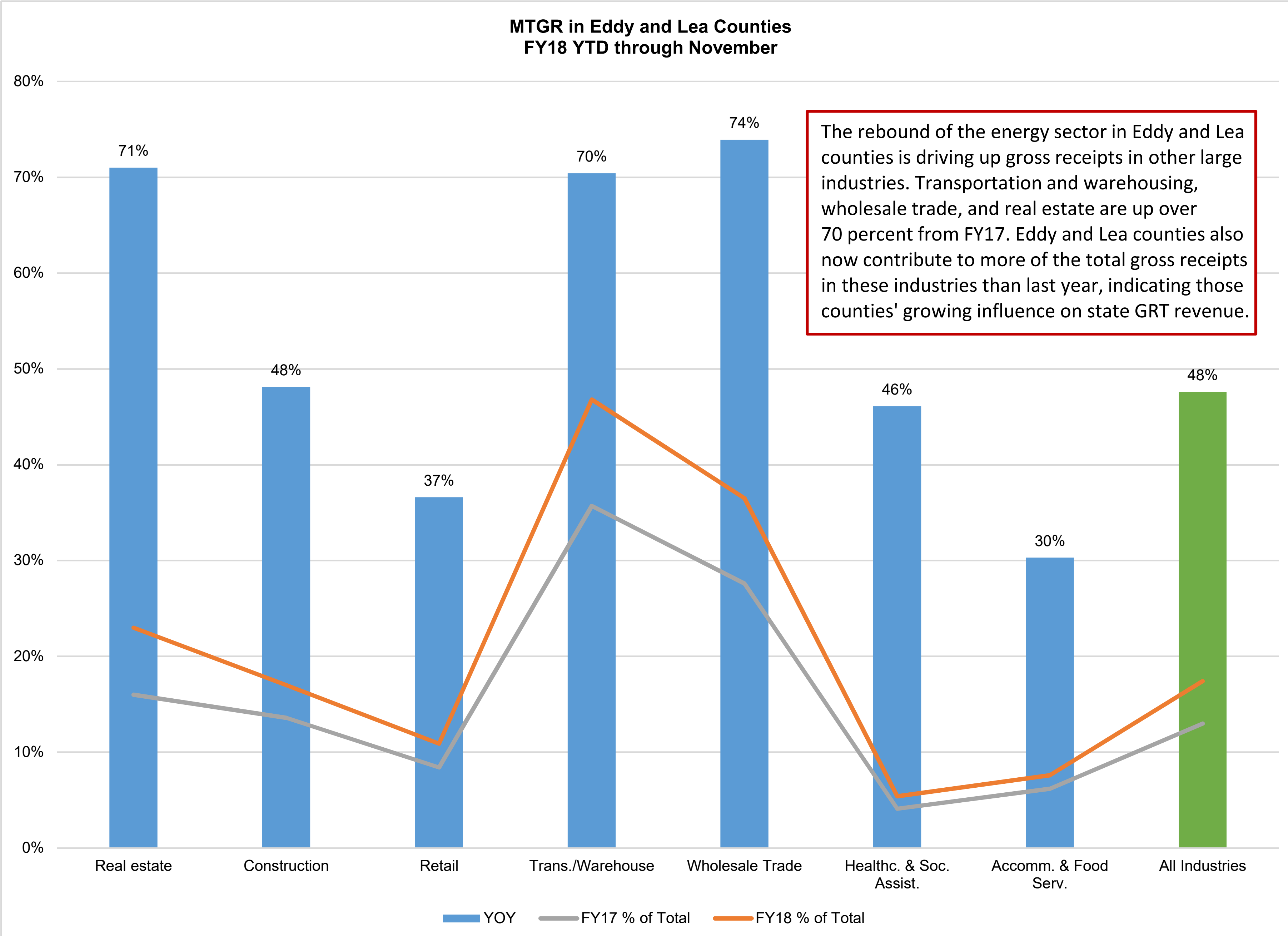
Nov-16
Feb-17
May-17
Aug-17
Nov-17
Growth in gross receipts is due more to the mining industry now than at any time in the data series history; mining is adding more taxable revenue to the economy than the long-term average of all other industries combined
Total Excluding Mining, Oil, and Gas
Mining, Oil, and Gas
Average Excluding Mining, Oil, and Gas

Matched Taxable Gross Receipts by County July 2017 - November 2017		
Jurisdiction	**Matched Taxable Gross Receipts**	**Year-over-Year Change**
Bernalillo County	$7,363,140,761	4.0%
Catron County	$18,327,968	-6.5%
Chaves County	$508,305,917	12.4%
Cibola County	$149,822,021	0.6%
Colfax County	$128,178,299	7.3%
Curry County	$373,238,418	-14.5%
De Baca County	$9,430,602	-39.6%
Dona Ana County	$1,475,665,675	3.7%
Eddy County	$1,874,469,913	56.9%
Grant County	$192,108,497	6.2%
Guadalupe County	$40,864,598	-2.6%
Harding County	$6,462,992	-32.6%
Hidalgo County	$109,493,804	198.0%
Lea County	$1,790,591,535	38.9%
Lincoln County	$224,001,423	8.6%
Los Alamos	$566,550,860	10.2%
Luna County	$169,253,355	19.0%
McKinley County	$432,476,310	-6.3%
Mora County	$19,464,910	37.5%
Otero County	$385,951,032	0.7%
Quay County	$58,147,891	-9.5%
Rio Arriba County	$180,482,770	8.6%
Roosevelt County	$120,715,421	11.6%
San Juan County	$1,350,976,032	11.5%
San Miguel County	$154,498,783	10.5%
Sandoval County	$604,937,038	-1.3%
Santa Fe County	$1,697,181,708	5.9%
Sierra County	$64,558,548	-31.8%
Socorro County	$82,979,252	-3.2%
Taos County	$293,981,570	-6.5%
Torrance County	$110,142,976	0.1%
Union County	$46,644,499	-3.1%
Valencia County	$448,253,773	45.7%

Matched Taxable Gross Receipts by County, Year-over-Year Amount, July 2017 - November 2017




MTGR in Eddy and Lea Counties
FY18 YTD through November
80%
70%
60%
50%
40%
30%
20%
10%
0%
71%
48%
37%
70%
74%
46%
30%
48%
The rebound of the energy sector in Eddy and Lea counties is driving up gross receipts in other large industries. Transportation and warehousing, wholesale trade, and real estate are up over 70 percent from FY17. Eddy and Lea counties also now contribute to more of the total gross receipts in these industries than last year, indicating those counties' growing influence on state GRT revenue.
Real estate
Construction
Retail
Trans./Warehouse
Wholesale Trade
Healthc. & Soc. Assist.
Accomm. & Food Serv.
All Industries
YOY
FY17 % of Total
FY18 % of Total