

General Fund Revenue Tracking and Outlook

PRESENTATION TO THE REVENUE STABILIZATION AND TAX POLICY COMMITTEE, NOVEMBER 22, 2021

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Agenda

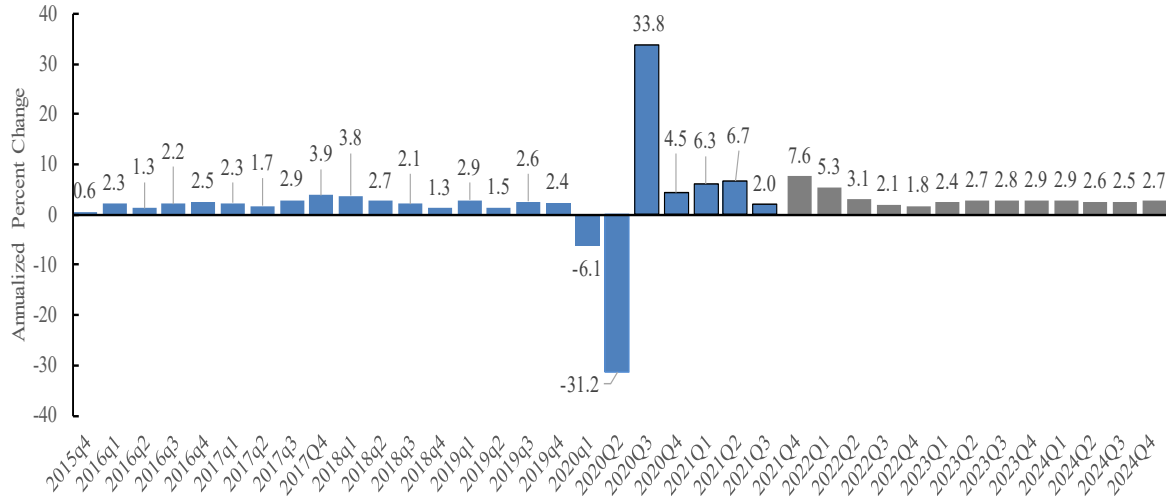
- I. Economic indicators
- II. Personal income tax
- III. Gross receipts tax
- IV. Oil and gas revenues
- V. Revenue tracking
- VI. Budget outlook

Economic Indicators

US Real Gross Domestic Product (RGDP)

Annualized Percent Change in US Real GDP: 2015 Q1 to 2021 Q3, Forecast 2021Q4-2024Q4

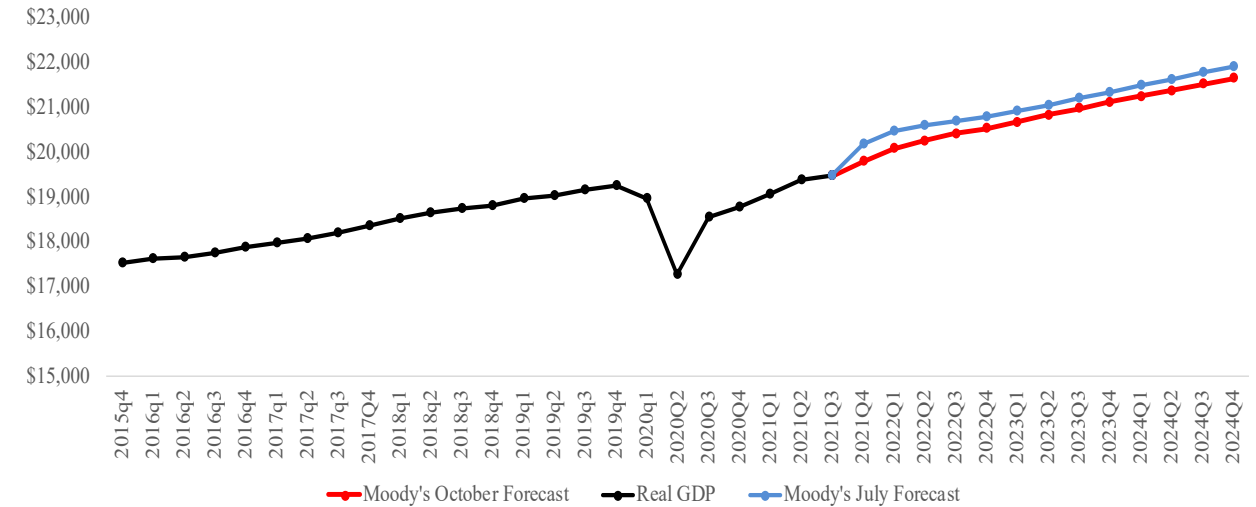
(Quarter-over-Previous-Quarter)



Source: bea.gov seasonally adjusted at annual rates, Moody's October 2021 Baseline Scenario

US Real Gross Domestic Product: 2015 Q4 to 2021 Q3, Forecast 2021Q4-2024Q4

(billions of chained 2012 dollars)

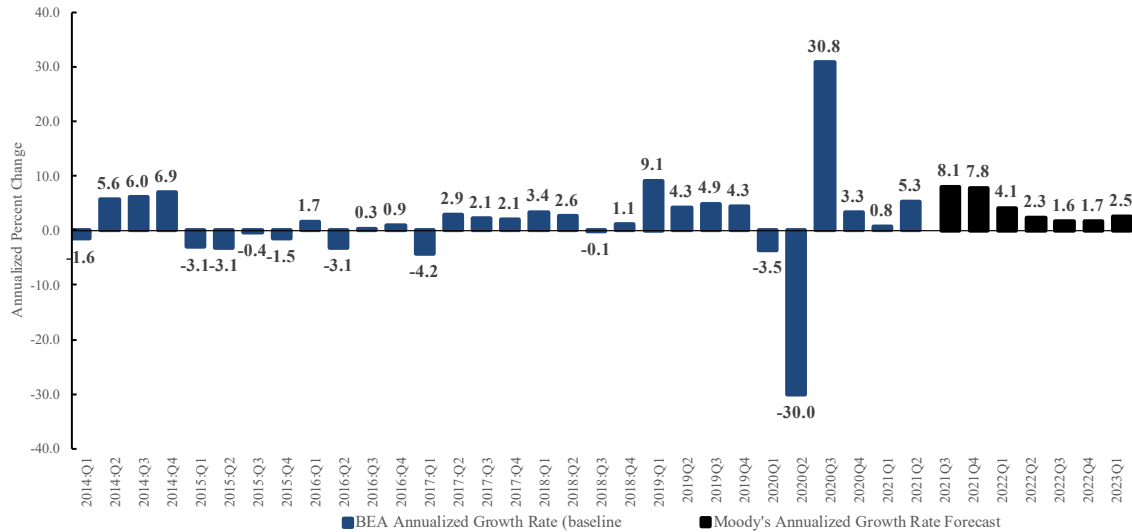


Source: GDP in billions of chained 2012 dollars, retrieved from bea.gov

- US real gross domestic product (RGDP) decreased at an annual rate of 31.2% in 2020 Q2, the sharpest economic contraction in US history.
- Moody's October forecast projects slightly slower recovery than the July forecast
- According to the Bureau of Economic Analysis (BEA), the deceleration in GDP in the 2021 Q3 was due to a slowdown in personal consumption expenditures. From 2021 Q2 to 2021 Q3, consumption spending on goods and services slowed and was led by spending reductions in motor vehicles and parts as well as food and accommodations.

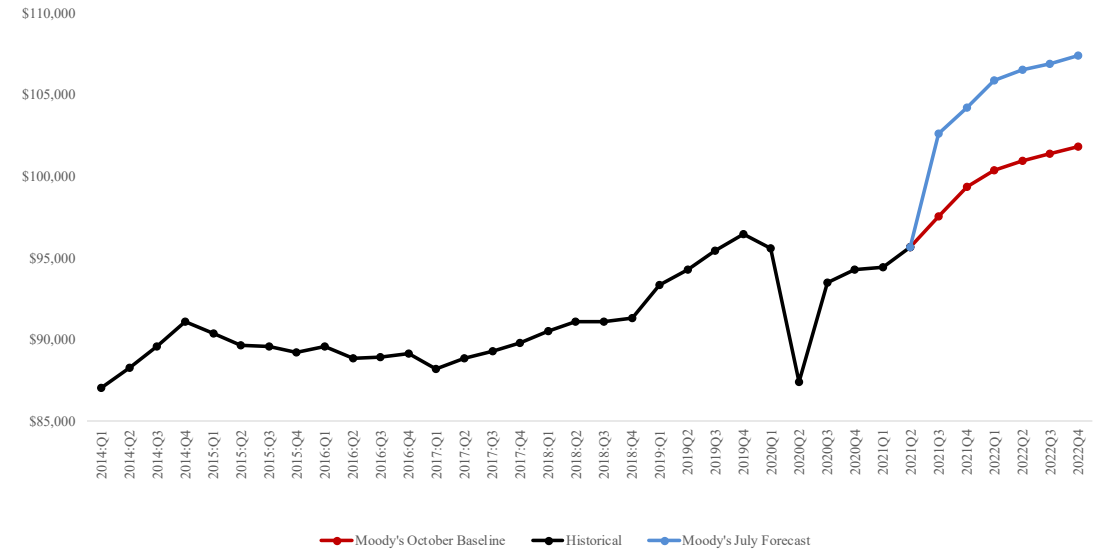
New Mexico Real Gross Domestic Product (RGDP)

Annualized Percent Change in NM Real GDP 2014Q1 to 2021Q2, Moody's Forecasts 2021Q3-2022Q4
(Quarter to Quarter)



Source: bea.gov, Moody's October 2021 Baseline Scenario vs. Historical Values

New Mexico Real Gross Domestic Product 2014Q1-2021Q1, Moody's Forecasts 2021Q-2022Q4

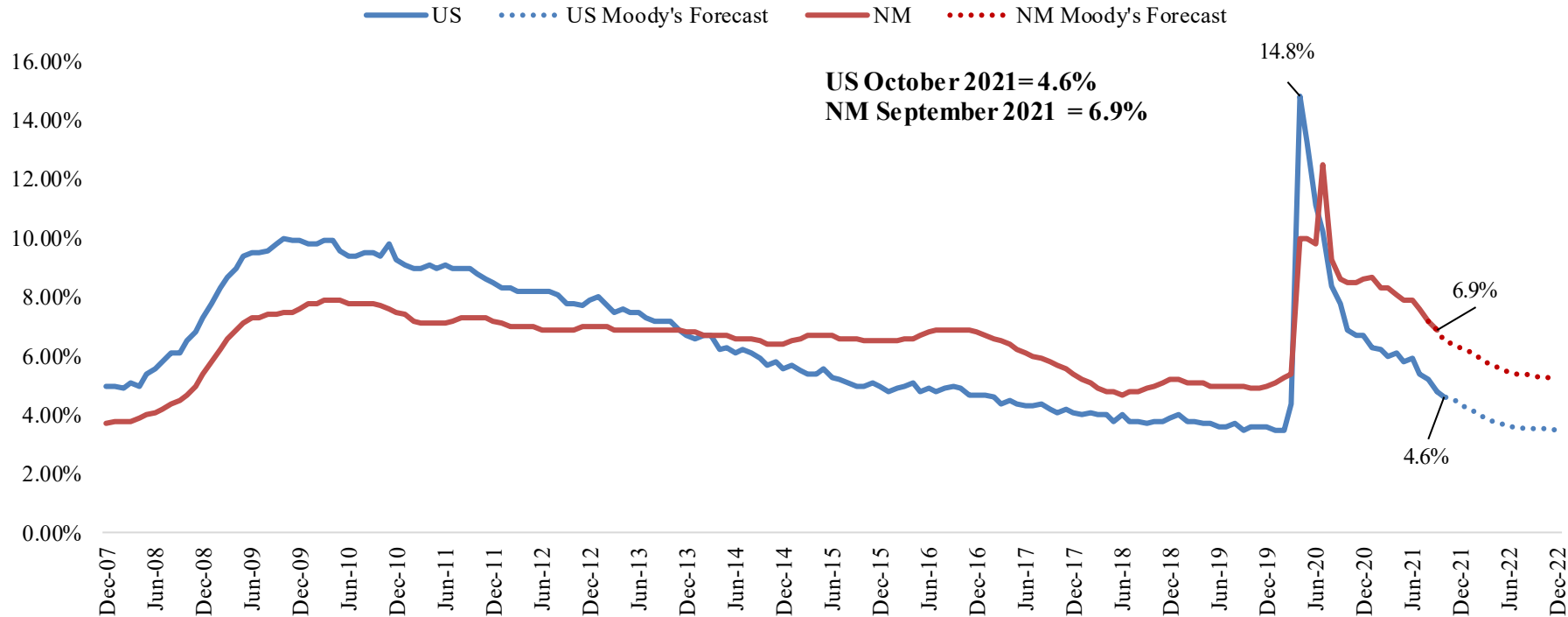


Source: bea.gov, Moody's October 2021 Baseline
(in 2012 chained millions of dollars)

- New Mexico's real GDP contracted by 30.0% in 2020 Q2, or \$8.15 billion from 2020 Q1 to 2020 Q2.
- At the national and state levels, Moody's revised baseline projections downward due to technical revisions of Bureau of Economic Analysis (BEA) data.
- Just as the national forecast was revised downward from July to October 2021, the state forecast follows suit
- Forecast estimate NM RGDP recovers to pre-COVID-19 levels in 2022

New Mexico Economic Indicators – Unemployment Rates

US and NM Unemployment Rate (percent) : December 2007 to October 2021

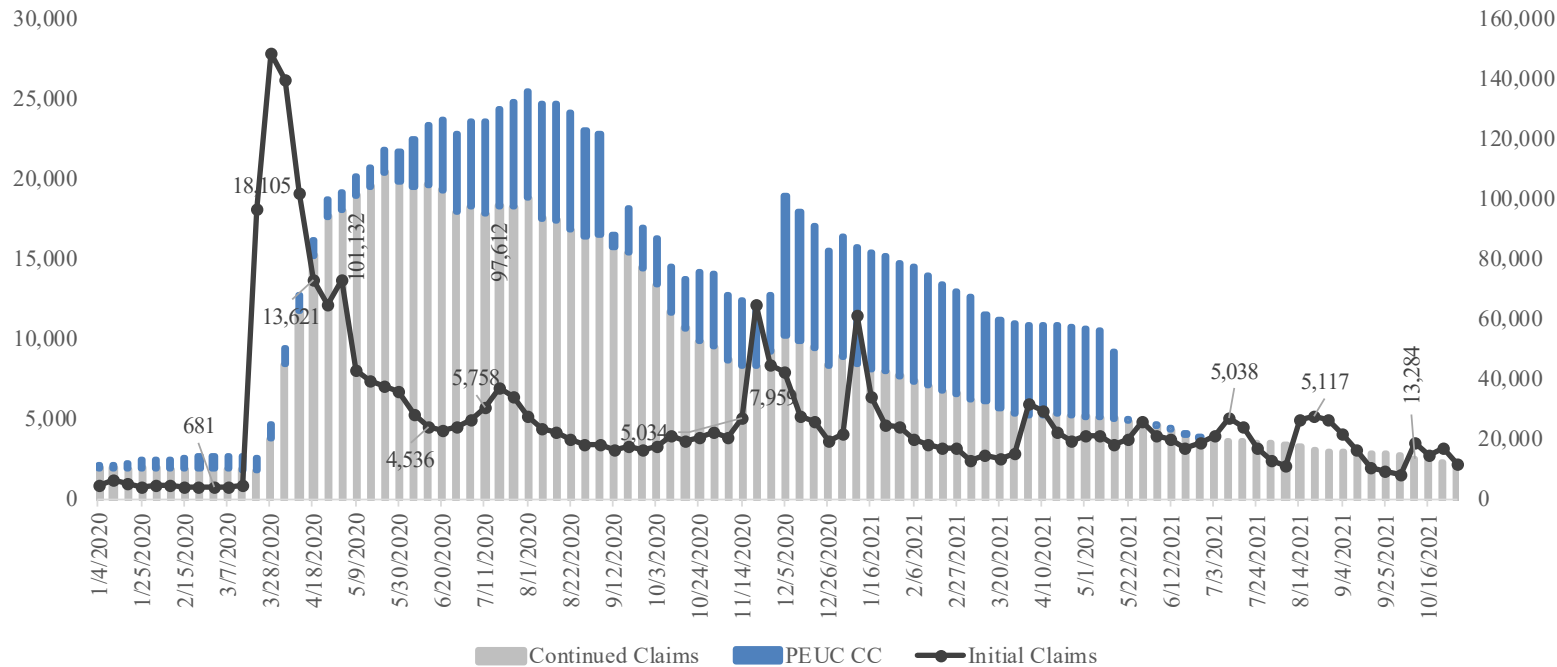


Source: bls.gov, seasonally adjusted

- The national unemployment rate peaked in April 2020 at 14.8% and has declined to 6.9% in October 2021.
- The New Mexico unemployment rate peaked in April 2020 at 12.5% and has declined to 6.9% in September 2021.
- For both the nation and the state, the unemployment rates are not projected to decline below pre-pandemic levels until late 2022.

New Mexico Economic Indicators – Unemployment Insurance Claims

**New Mexico's Weekly UI Initial Claims, Continued Claims, and Pandemic Emergency Unemployment Compensation Assistance
January 2020 to Present**

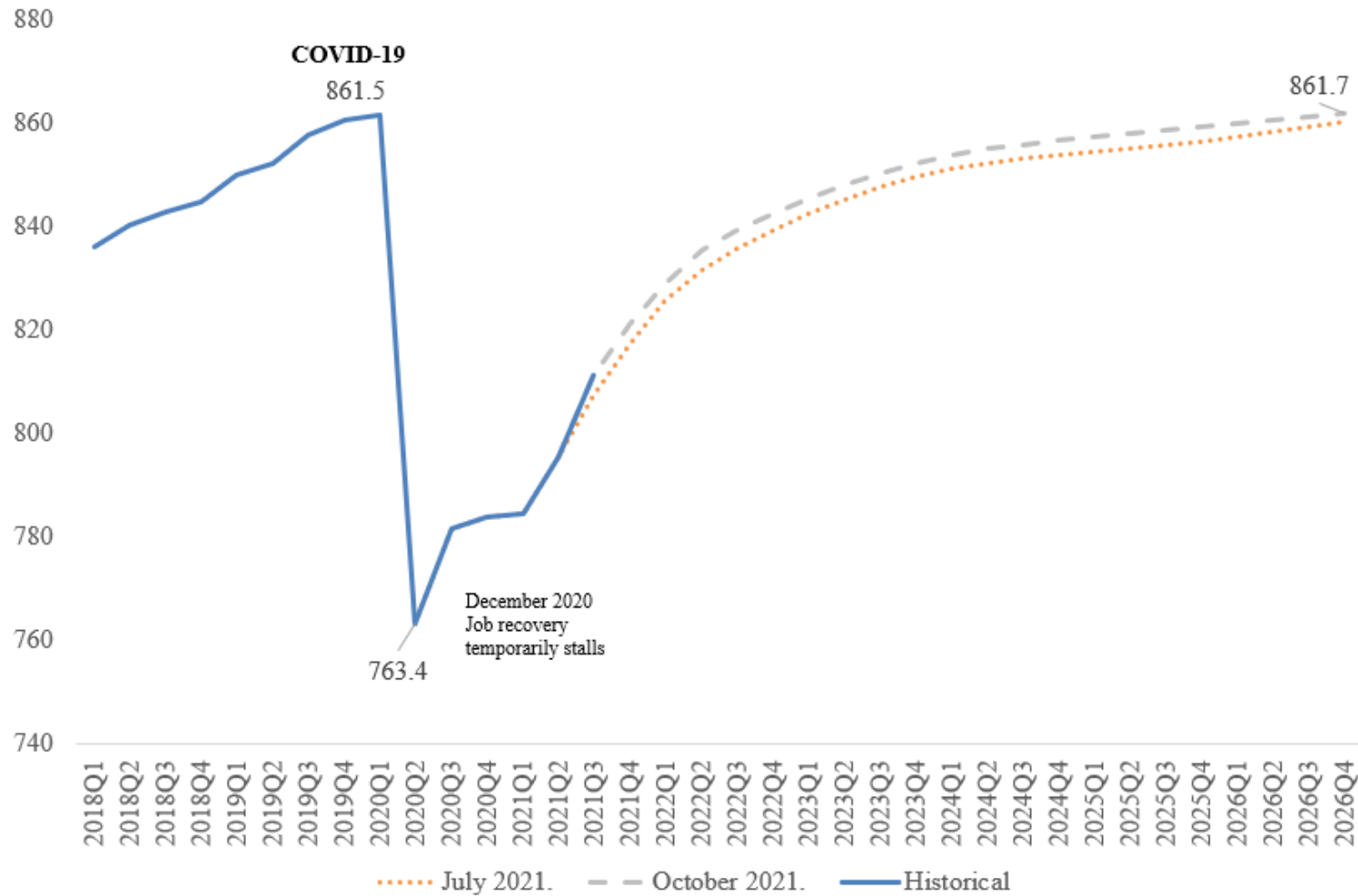


Source: dol.gov, not seasonally adjusted, DWS NM

- The CARES Act created a new temporary federal program, the Federal Pandemic Unemployment Assistance program (PUA).
- The CARES Act also created the Pandemic Emergency Unemployment Compensation (PEUC) program, a temporary program available to individuals whose regular employment benefits have expired.
- All COVID-19 federal unemployment programs expired on September 4, 2021.
- Continued claims started to decline during the summer months of 2021. The state eliminated pandemic restrictions on July 1, 2021.

New Mexico Economic Indicators – Employment Recovery

New Mexico's Quarterly Total Non-Farm Employment by Forecast: 2018Q1 to 2026Q4

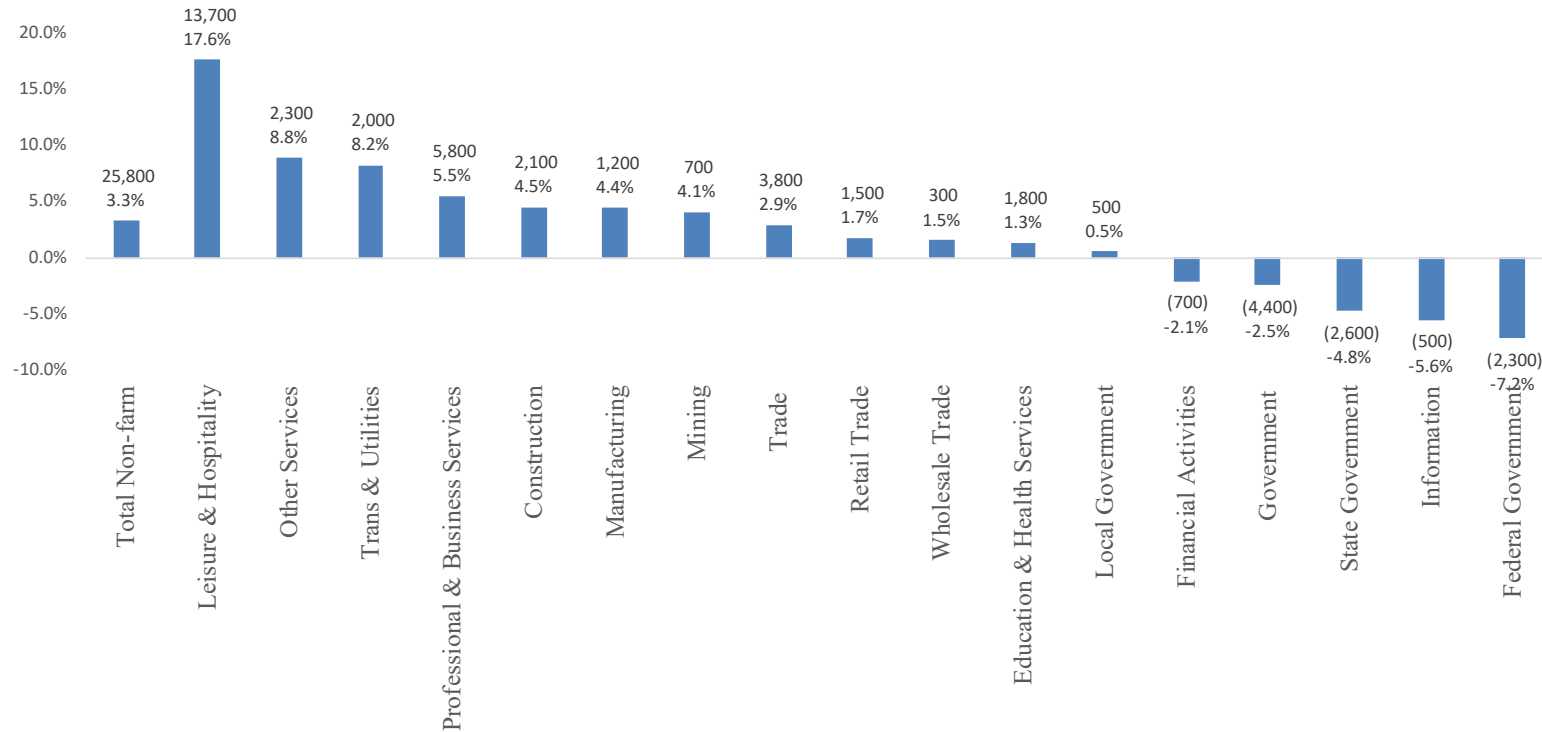


Source: bls.gov, Moody's Analytics

- From February to April 2020, New Mexico lost over 104 thousand jobs.
- In September 2021, on a year-over-year basis, New Mexico is up 24,900 jobs or 3.2% compared to September 2020.
- The October 2021 baseline forecast (gray line) estimates New Mexico will achieve pre-pandemic employment levels by the end of 2026.
- Recovery depends on national trends:
 - Epidemiological path of the pandemic and virus variants.
 - Labor-supply constraints caused by healthcare and childcare issues.
 - Supply-chain issues.

New Mexico Employment by sector

Percent Change and Level Change in Non-Farm Employment in New Mexico by Sector
September 2020 to September 2021

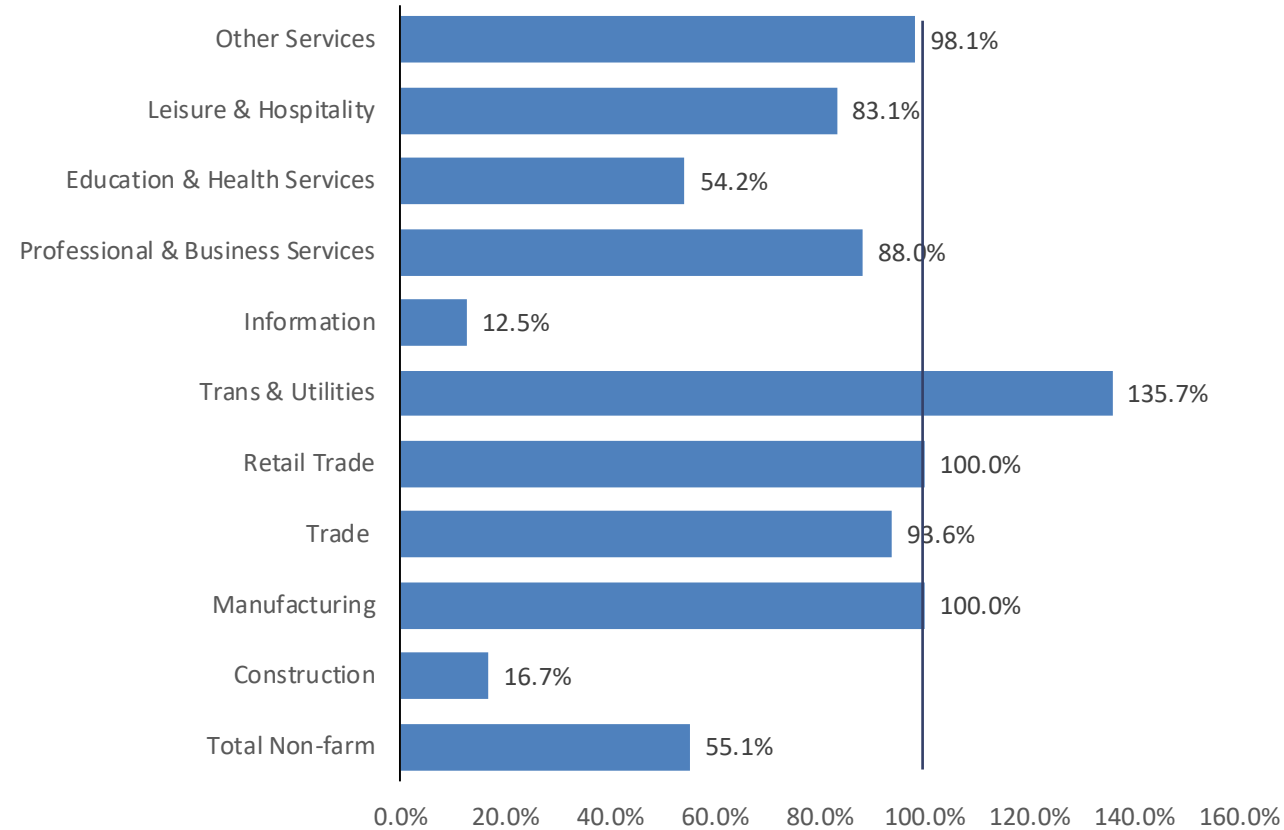


Source: bls.gov, CES not seasonally adjusted

- Year-over-year total non-farm employment increased 3.3% or 25,800 jobs in September 2021.
- But if we were to compare September 2021 to September 2019, employment is down 5.4% or 46,000 jobs.
- Leisure and Hospitality has regained 13,700 jobs over the year, an increase of 17.6%.
- In September 2021, employment declines occurred in the following sectors.
 - Federal and State Government
 - Information

New Mexico Job Recovery by Industry

Percentage of Lost Jobs Regained by September 2021



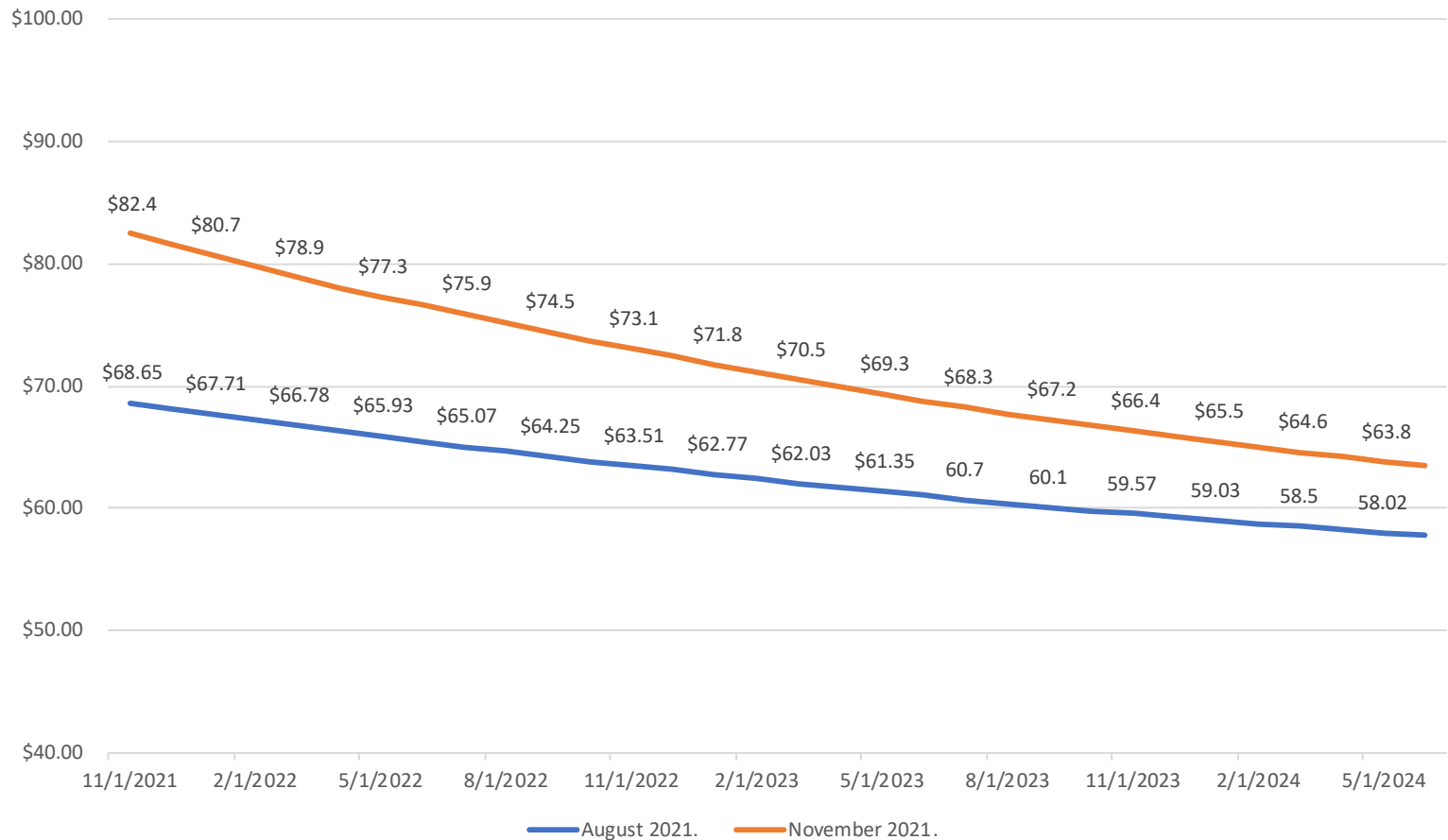
Source: Bureau of Labor Statistics, October 2021, not seasonally adjusted

Jobs gained from April 2020 to September 2021, as a percent of jobs lost from February 2020 to April 2020

- By September 2021, the state had regained about 83.1% of lost leisure and hospitality jobs, 100% of retail jobs, and approximately 55.1% of non-farm jobs.

NYMEX WTI Oil Future Prices August 2021 vs. November 2021

NYMEX Oil Futures August 2021 vs November 2021 (dollar per barrel)

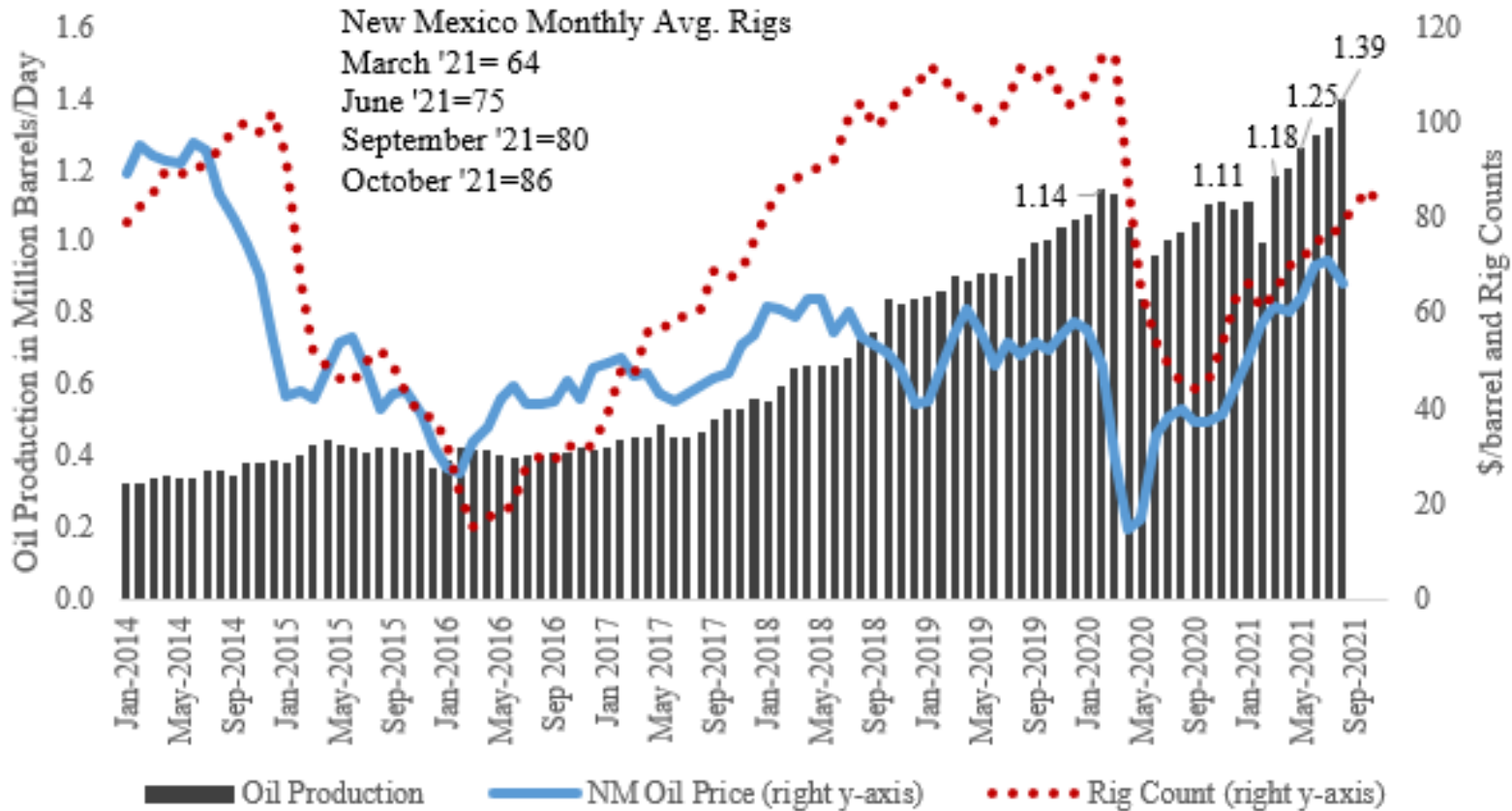


Source: CME Group

- NYMEX futures indicate oil traders positions and where they expect oil prices to be headed in the near term.
- NYMEX futures expectations have increased since August 2021.
- The NYMEX futures prices for the end of CY 2021 has risen \$12.70 from \$68.18 per barrel to \$80.88 per barrel
- Stronger than anticipated oil price recovery is driven by OPEC+ decisions, inventory drawdowns, and increases in global oil demand in the near term.

New Mexico Oil Production, WTI price, and Rig Counts

NM Oil Production (MMb/d), NM Oil Price (\$ per barrel), & NM Rig Count (number)
January 2014 to November 2021

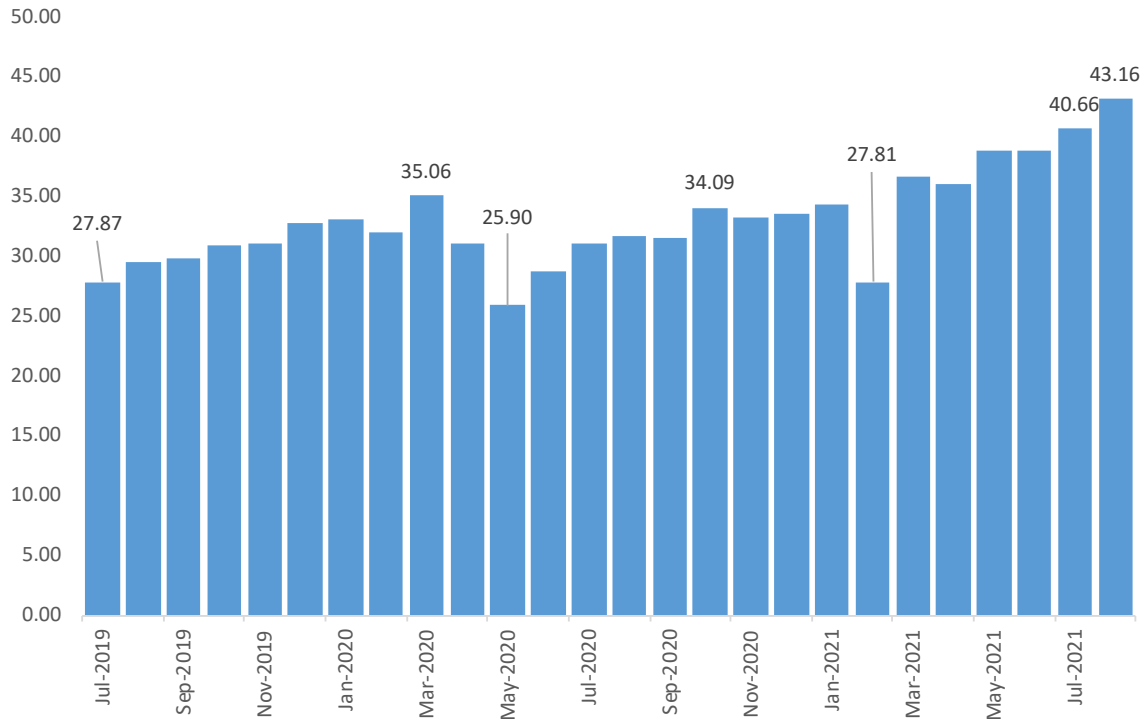


- Rig count (red line) has increased steadily since reaching a low of 44 in September 2020
- In August 2021, New Mexico registered its highest oil production recorded in the state's history (black bars).
- Rystad Energy reported, in October 2021, the Permian basin added at least 120,000 bpd with about half coming from New Mexico and the rest from Texas.

Source: Baker Hughes, TRD (Production and price through August 2021, Rigs through November 2021)

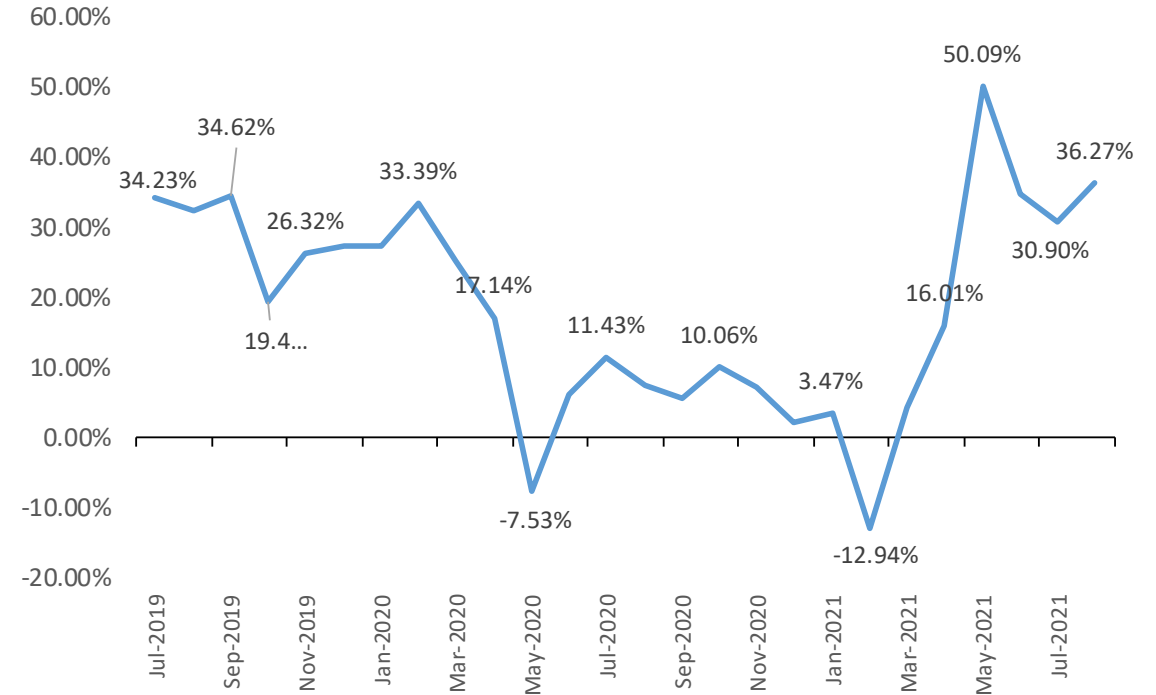
New Mexico Monthly Oil Production

New Mexico Oil Production (millions of barrels)



Source: NM TRD GenTax System

New Mexico Oil Production (Year-over-year Pct. Chg.)



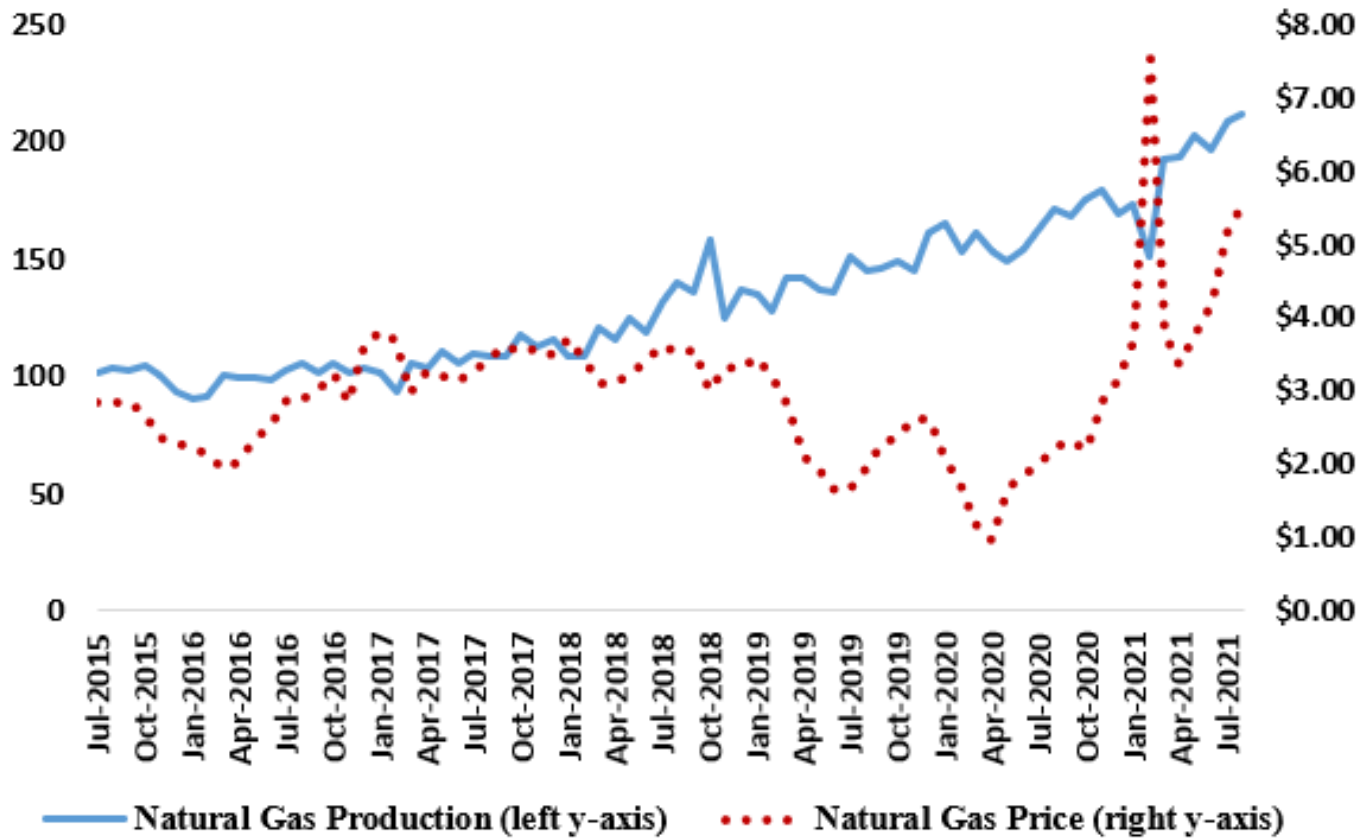
Source: NM TRD GenTax System

- New Mexico oil production slowed at the start of 2021 and global oil demand began to increase as economies fully reopened.
- In August 2021, on year-over-year basis, NM oil production increased by 36.72% compared to the same month in 2020.

New Mexico Monthly Natural Gas Production

New Mexico Natural Gas Prices and Production July 2015 to August 2021

Production = billion mcf per month, Price = \$ per mcf



- The state's natural gas production increased to a high of 211.2 bcf for August 2021, a 23% year-over-year increase.
- Increased domestic and international demand for natural gas and global supply constraints have driven prices upward.
- New Mexico natural gas averaged a \$5.54/mcf in August 2021, up from \$2.23/mcf in August 2020.

Source: NM TRD GenTax System

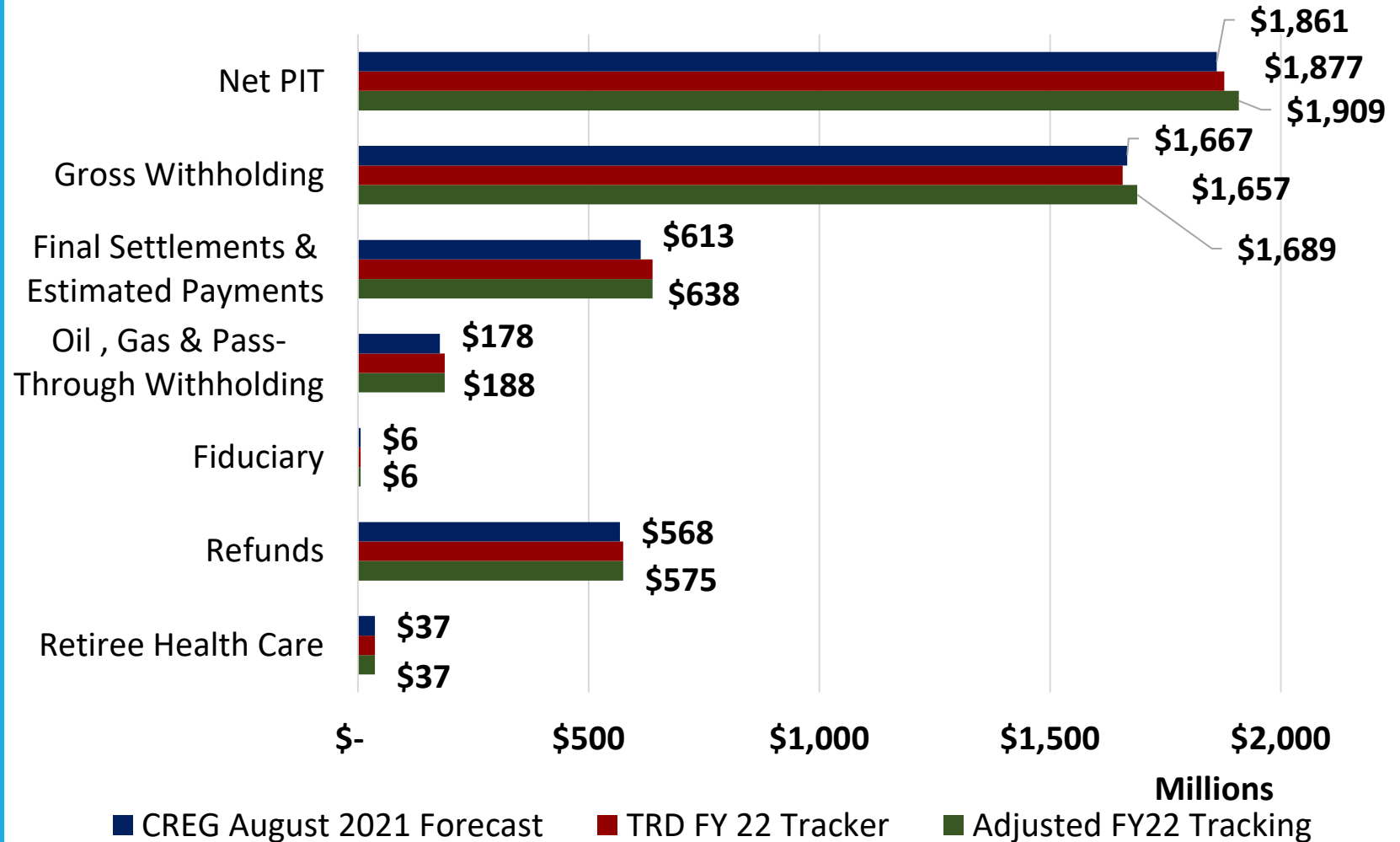
Personal Income Taxes

Personal Income Tax (PIT) – FY22 revenue

- Withholding is tracking weak compared to forecast due to a revenue accrual timing issue
- Weakness is attributable to \$32 million withholdings revenue transferred to General Fund in FY 2021 that actually belongs in FY 2022.
 - Previous FY21 PIT estimate included the \$32 million.
- After making the adjustments to revenues to reflect economic activity in FY 2022, withholdings revenue continues to show strength.

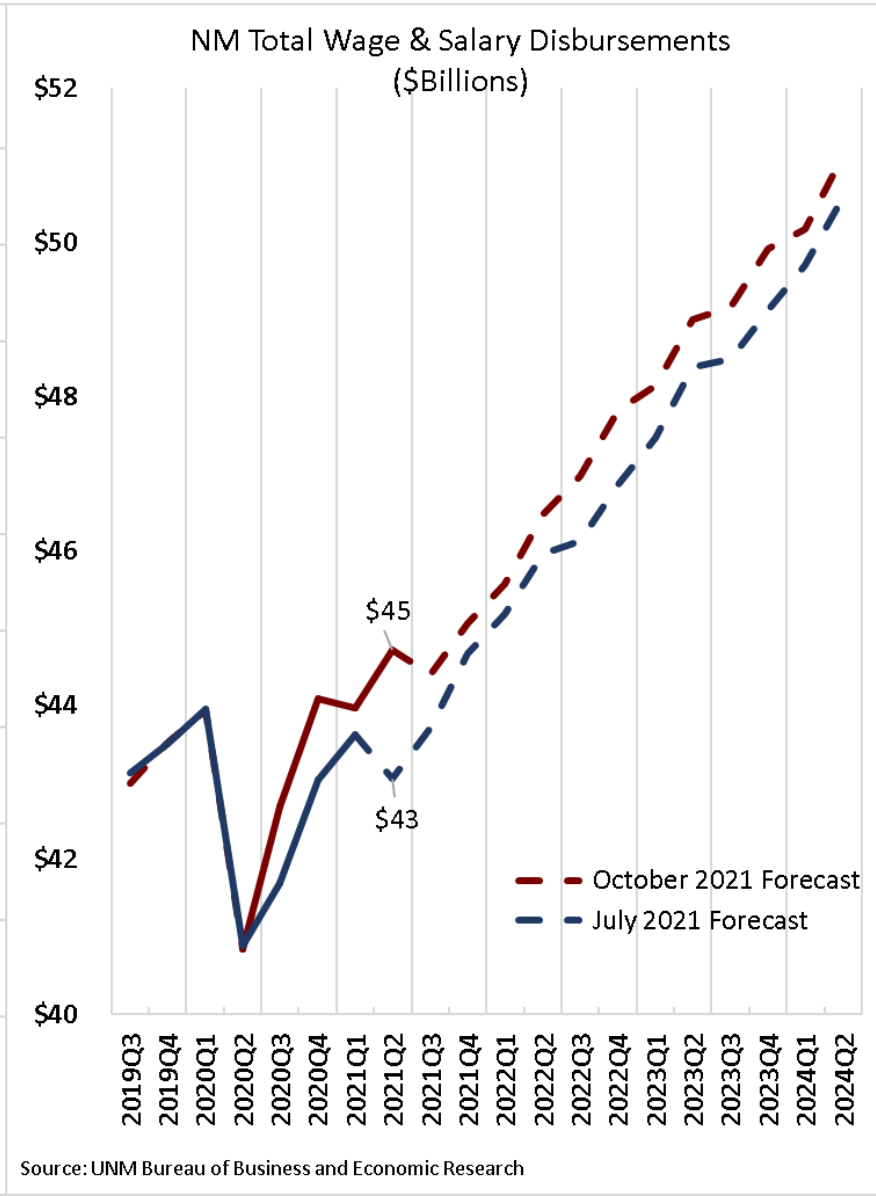
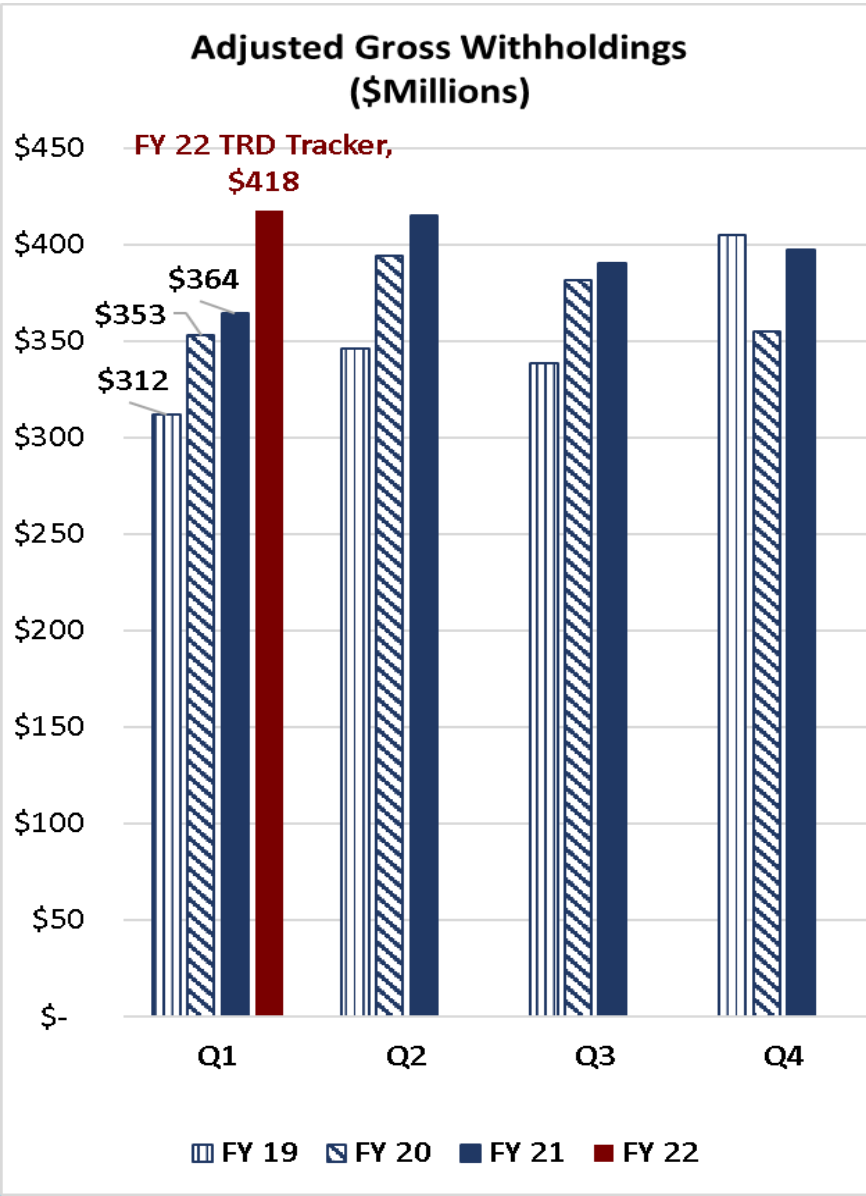
FY 2022 Personal Income Tax Revenue Components -- Forecast vs. Tracking

$$\text{Net PIT} = \text{Gross Withholding} + \text{Final Settlement \& Estimated Payments} + \text{Oil, Gas \& Pass-Through Withholdings} + \text{Fiduciary} - \text{Refunds} - \text{Retiree Health Care}$$



Source: CREG, TRD, Author's Calculations

Current adjusted tracking shows strength in withholding compared to the forecast...

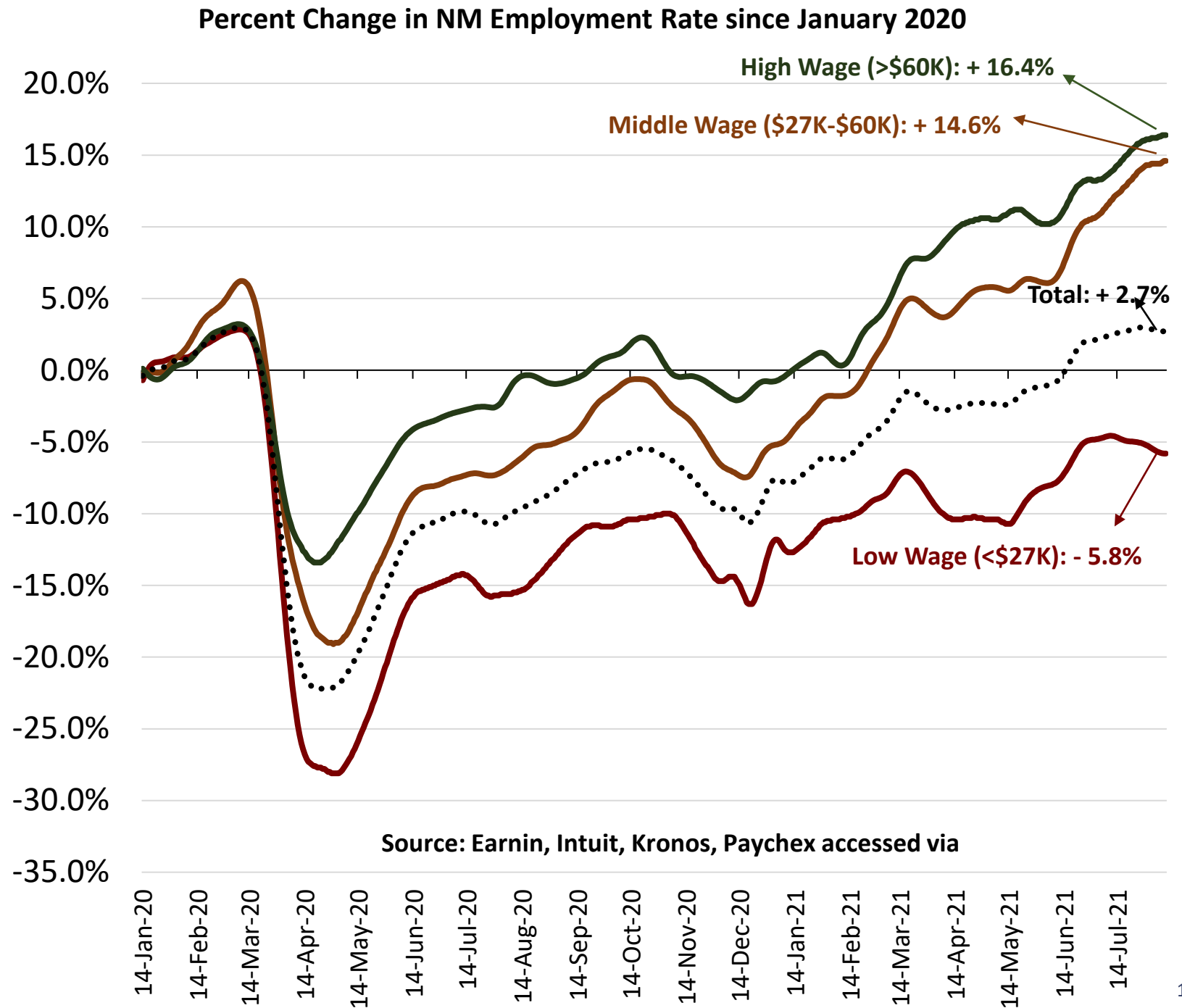


- Adjusted gross withholdings in FY22Q1 are tracking at a historically high level.
- Stronger-than-expected withholding accounts for most of the strength in PIT revenues compared to the consensus forecast.
- Actual wage and salary growth stronger than forecasted.
 - Majority of jobs lost due to pandemic were in low-wage sectors
 - These are also jobs that are slow to recover.

Source: UNM Bureau of Business and Economic Research

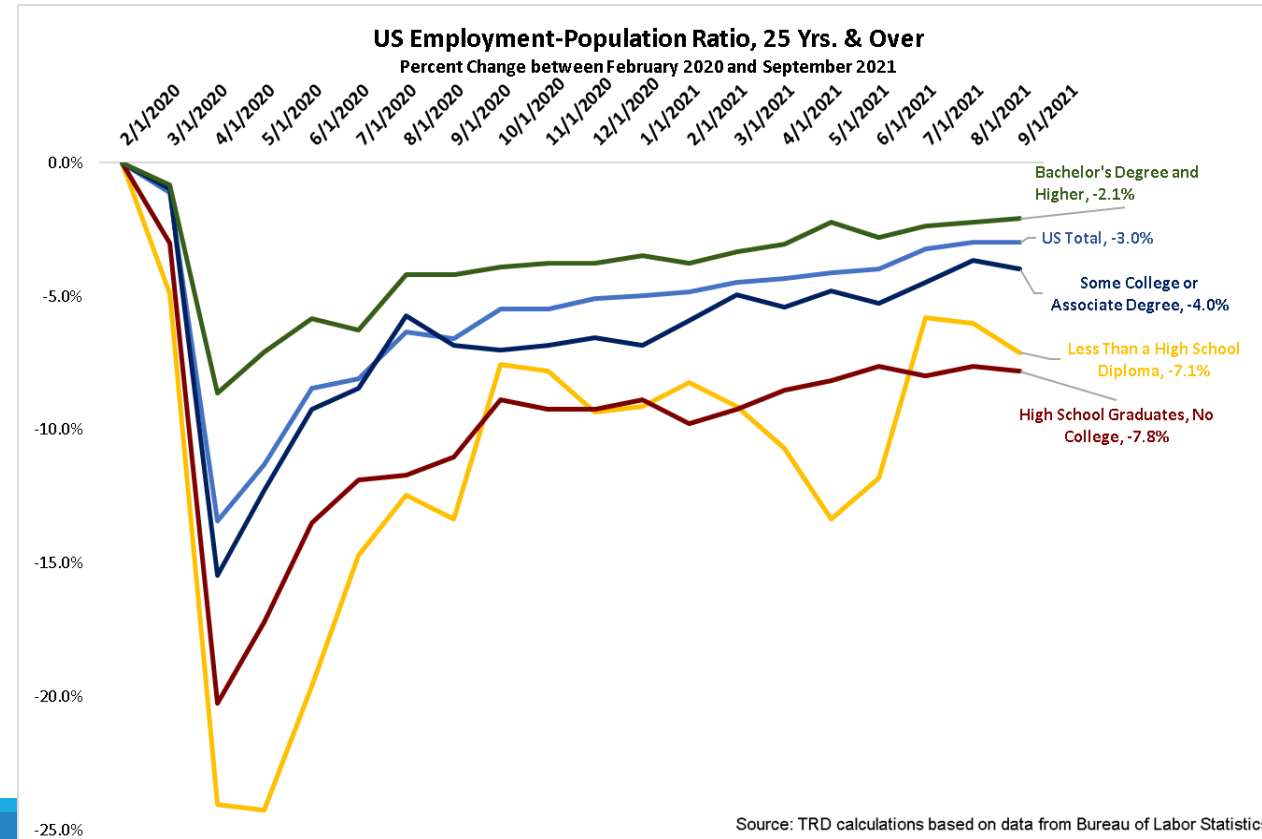
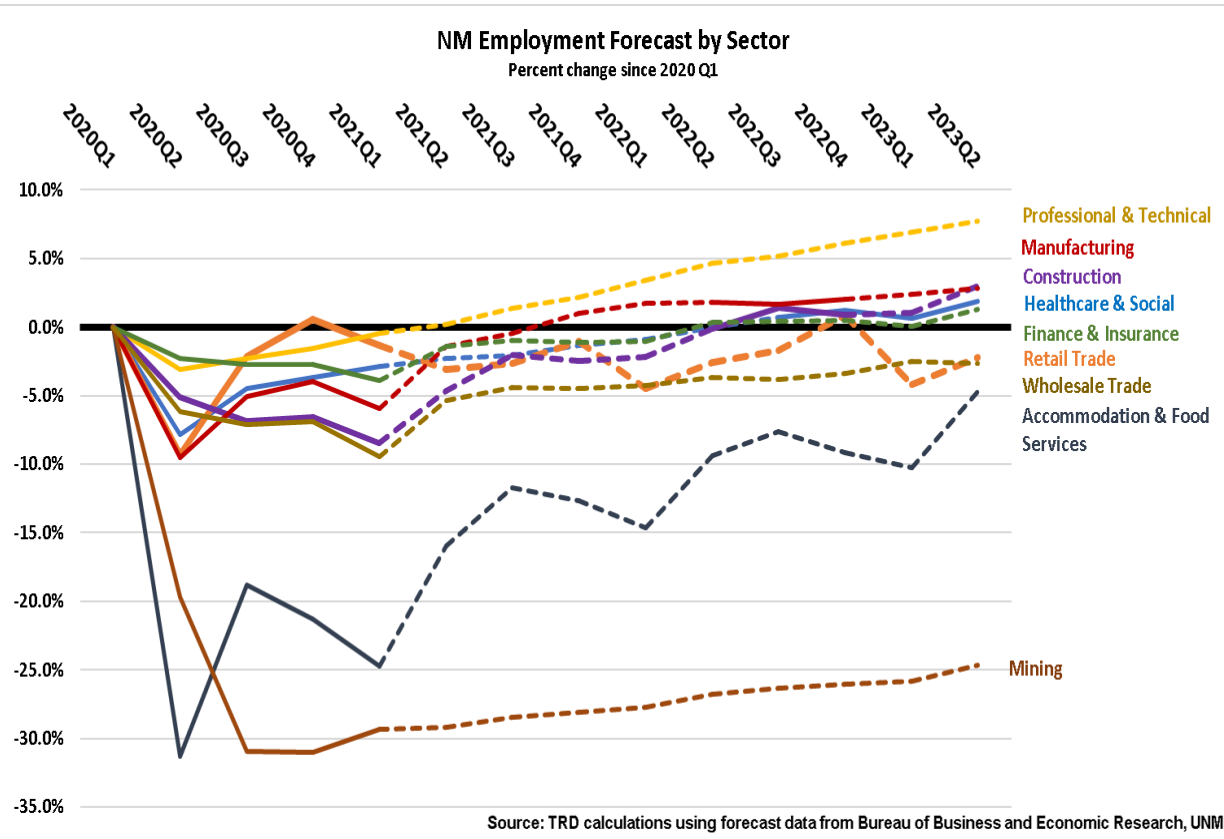
Percent Change in NM Employment Rate since January 2020

- As of August 2021, employment rate in the **lowest wage quartile** was **5.8% lower** than in January 2020. While employment rate in the highest wage quartile was **16.4% higher**.



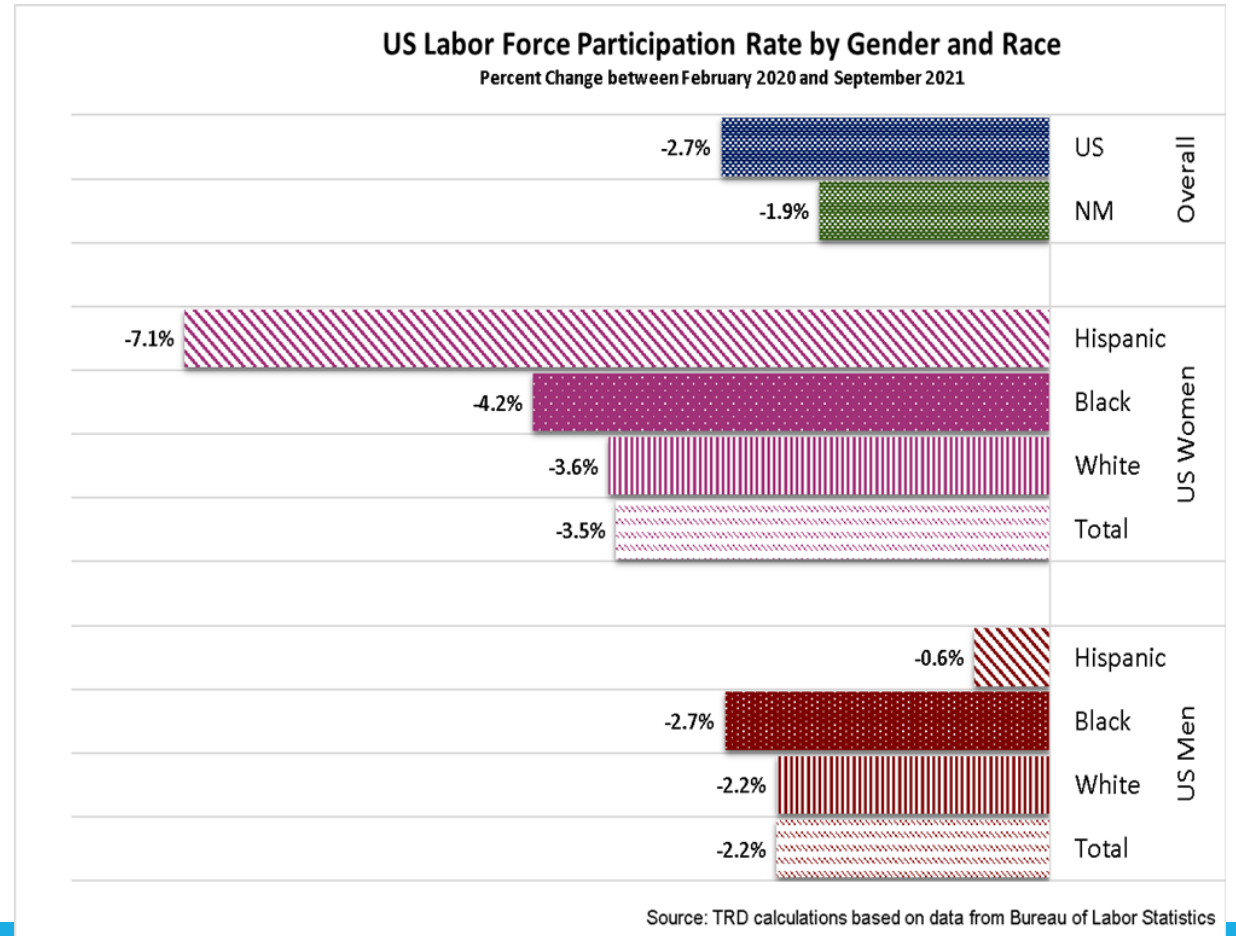
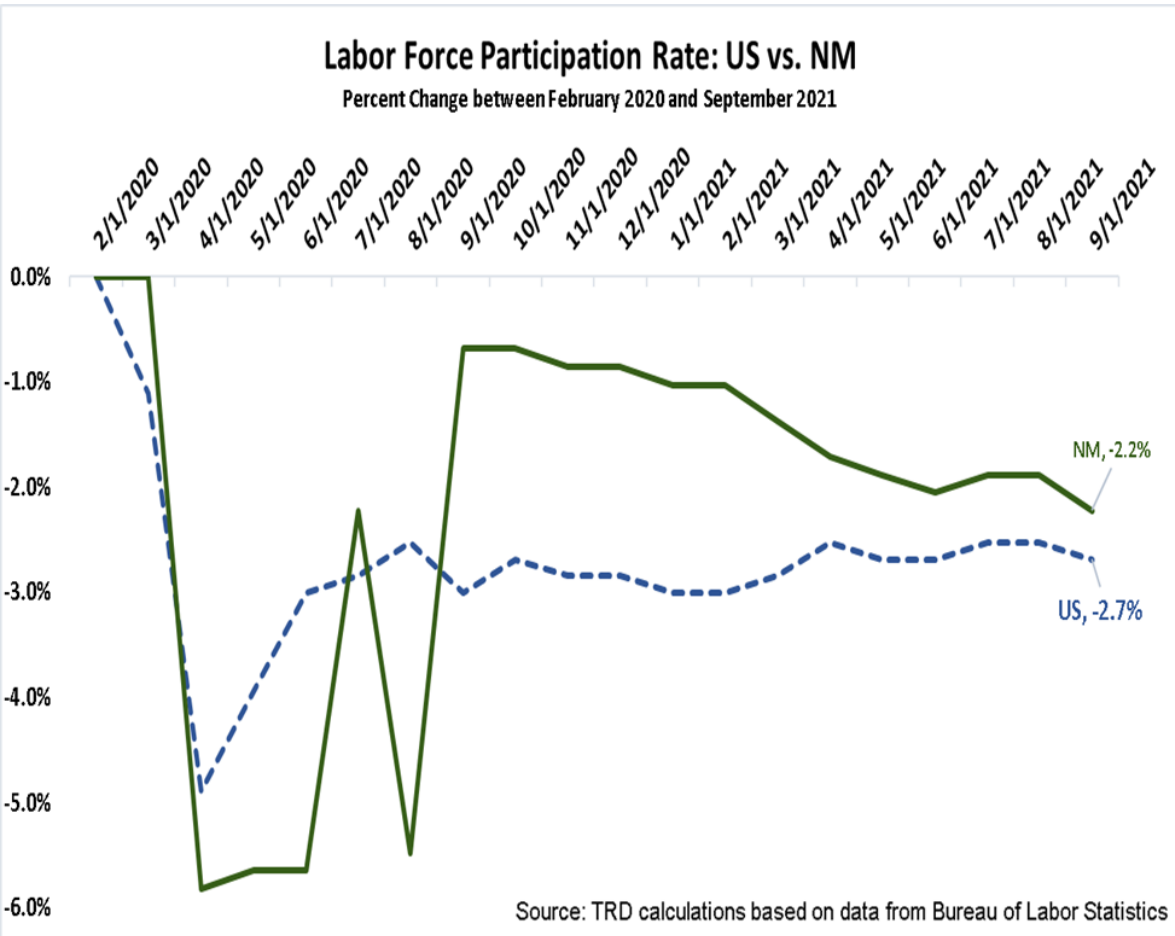
Low wage sectors, less educated workers hit worst and will be slow to recover

- In New Mexico, the 2nd and 3rd largest industries by employment - Retail and Accommodations & Food Services- are lower-wage jobs and are not forecasted to return to pre-recession levels before the end of FY 2023.
- Job losses since March 2020 have been most prolonged for workers with less educational attainment.
- New Mexico's recovery is expected to be fastest in higher wage jobs requiring degrees - Finance & Insurance, and Healthcare.
- Professional & Technical Services industry is already tracking close to pre-pandemic levels.



Economic Volatility Disproportionately Impacts Women and Women of Color

- Labor force participation has fallen for everyone.
- NM has recovered more than the national economy.
- Participation by women of color has fallen the most
- Women and minorities are more representative in lower-wage service jobs hit hard by COVID-19 impacts



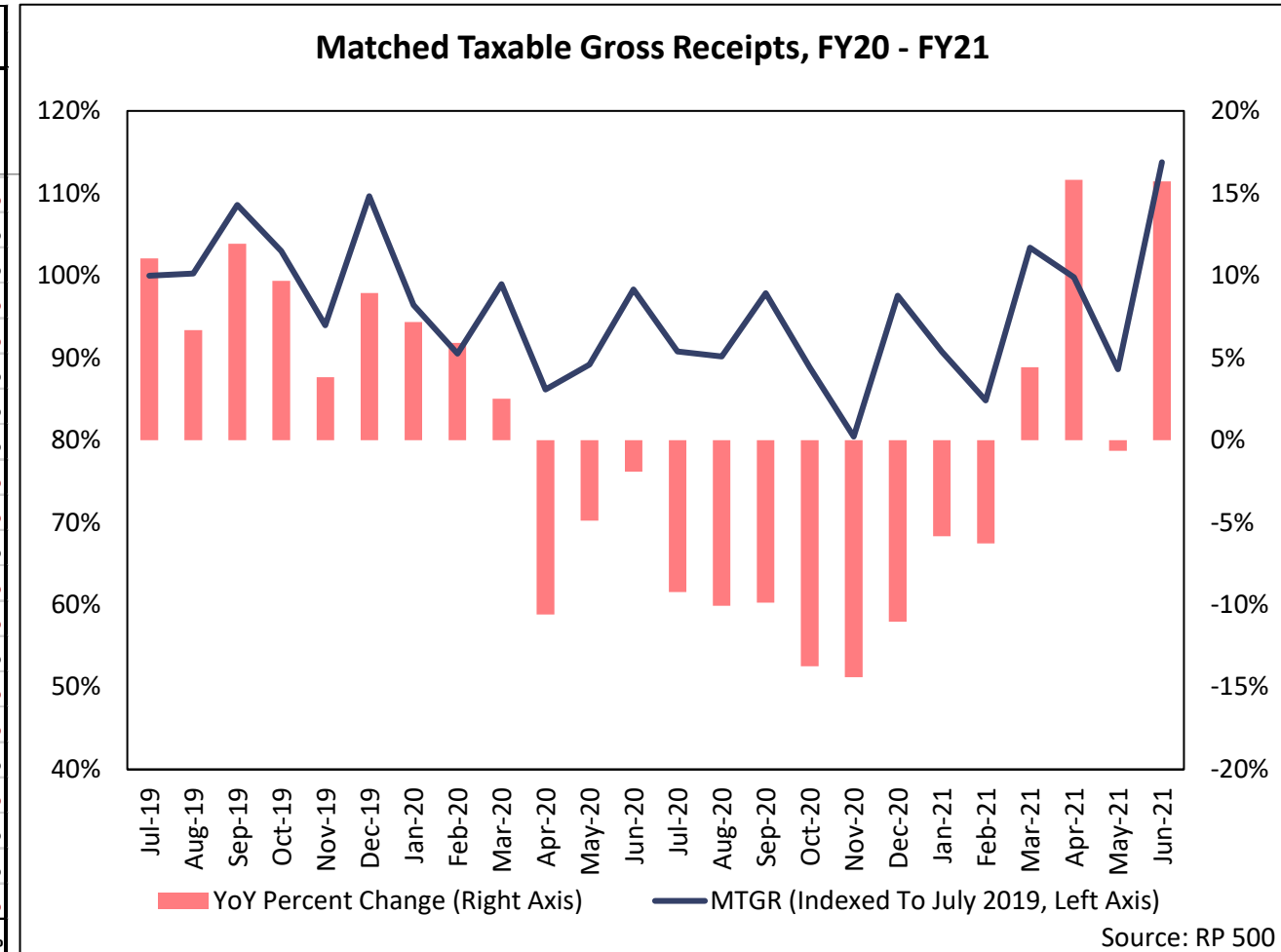
Gross Receipts Taxes

New Factors in Interpreting GRT Data

- Business tax redesign at Tax & Rev led to new taxpayer reporting July 1, 2021
 - The redesign split combined reporting into separate reporting for GRT, Compensating, and Withholding taxes
- Starting July 1, 2021, New Mexico switched to “destination-based” sourcing.
 - This method of sourcing looks to where the goods or services are delivered not the business location, and taxes remote sellers (internet sales)
 - For applicable services, with some exceptions, this method looks to where the product of the service is delivered or initially used.
- COVID-19 impacts and related stimulus makes estimating the impacts of July 1 changes difficult due to multiple moving parts.
- Additional data over time will allow for better comparative analysis to parse individual impacts

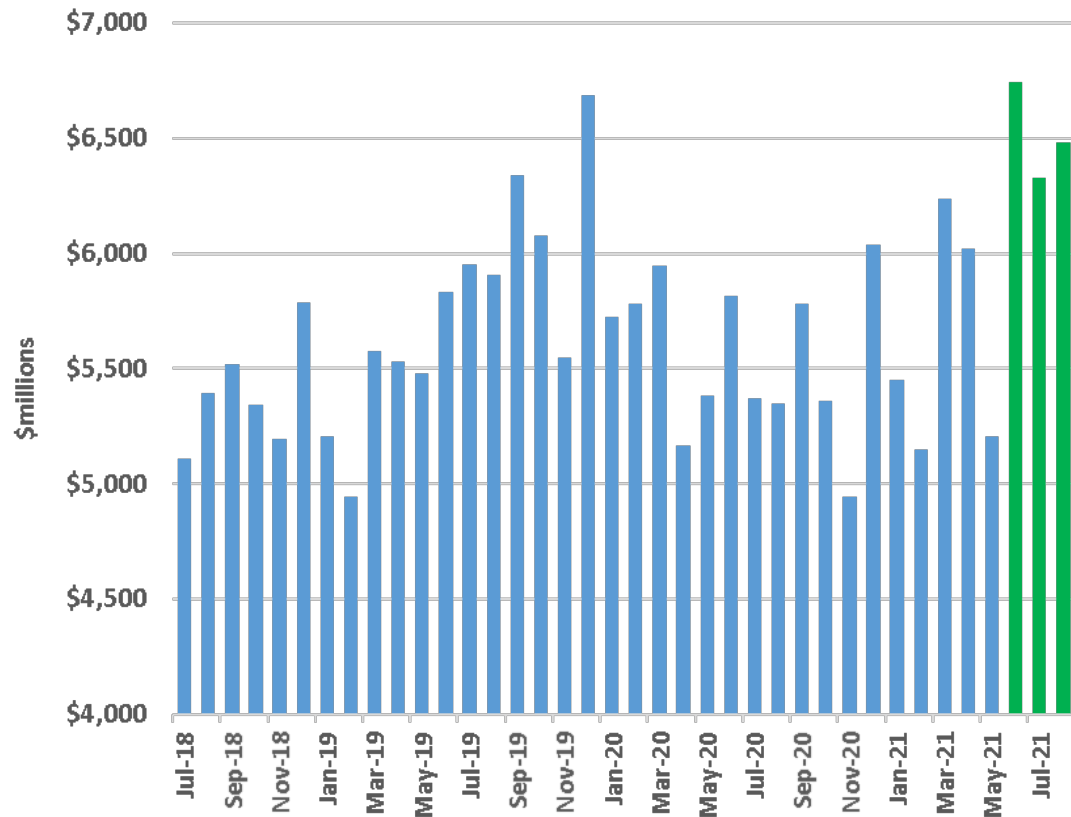
FY21 pandemic effects were significant and varied across industries

Matched Taxable Gross Receipts by Industry FY21 vs. FY20			
Industry	Matched Taxable Gross Receipts	Year-over-Year Growth	Year-over-Year Change
Accommodation and Food Services	\$4,184,853,317	-\$106,109,179	-2.5%
Administrative/Support & Waste Management/Remediation	\$3,333,653,602	\$381,175,171	12.9%
Agriculture, Forestry, Fishing, and Hunting	\$147,390,854	\$18,632,190	14.5%
Arts, Entertainment, and Recreation	\$225,551,140	-\$70,180,587	-23.7%
Construction	\$8,305,749,117	-\$1,103,663,947	-11.7%
Educational Services	\$324,142,750	\$26,251,614	8.8%
Finance and Insurance	\$440,359,008	\$54,098,351	14.0%
Health Care and Social Assistance	\$3,889,750,563	\$410,554,509	11.8%
Information	\$1,989,870,304	-\$991,560,612	-33.3%
Management of Companies and Enterprises	\$38,471,246	-\$2,662,811	-6.5%
Manufacturing	\$2,043,272,347	\$23,894,737	1.2%
Mining, Quarrying, and Oil and Gas Extraction	\$4,500,812,001	-\$2,079,383,372	-31.6%
Other Services (except Public Administration)	\$5,342,873,950	-\$408,990,988	-7.1%
Professional, Scientific, and Technical Services	\$6,689,091,527	\$103,313,907	1.6%
Public Administration	\$236,849,167	-\$56,701	0.0%
Real Estate and Rental and Leasing	\$1,731,506,425	-\$74,435,861	-4.1%
Retail Trade	\$16,728,935,821	\$1,468,982,136	9.6%
Transportation and Warehousing	\$804,359,121	-\$145,264,729	-15.3%
Unclassified Establishments	\$1,048,003,787	\$193,531,150	22.6%
Utilities	\$2,855,136,227	\$104,816,709	3.8%
Wholesale Trade	\$2,850,157,317	-\$418,330,057	-12.8%
Total	\$67,710,789,591	-\$2,601,850,342	-3.7%



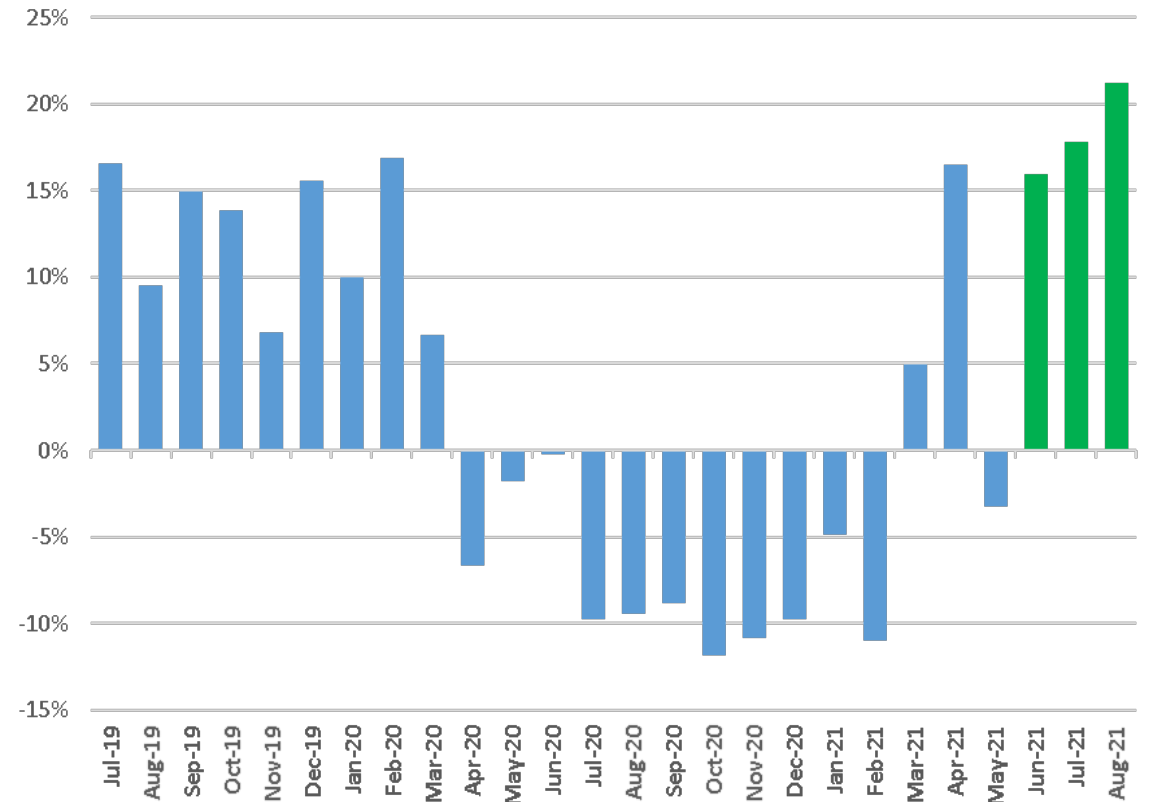
Last 3 months of economic activity strong (Jun-Aug 2021)

Matched Taxable Gross Receipts (MTGR)

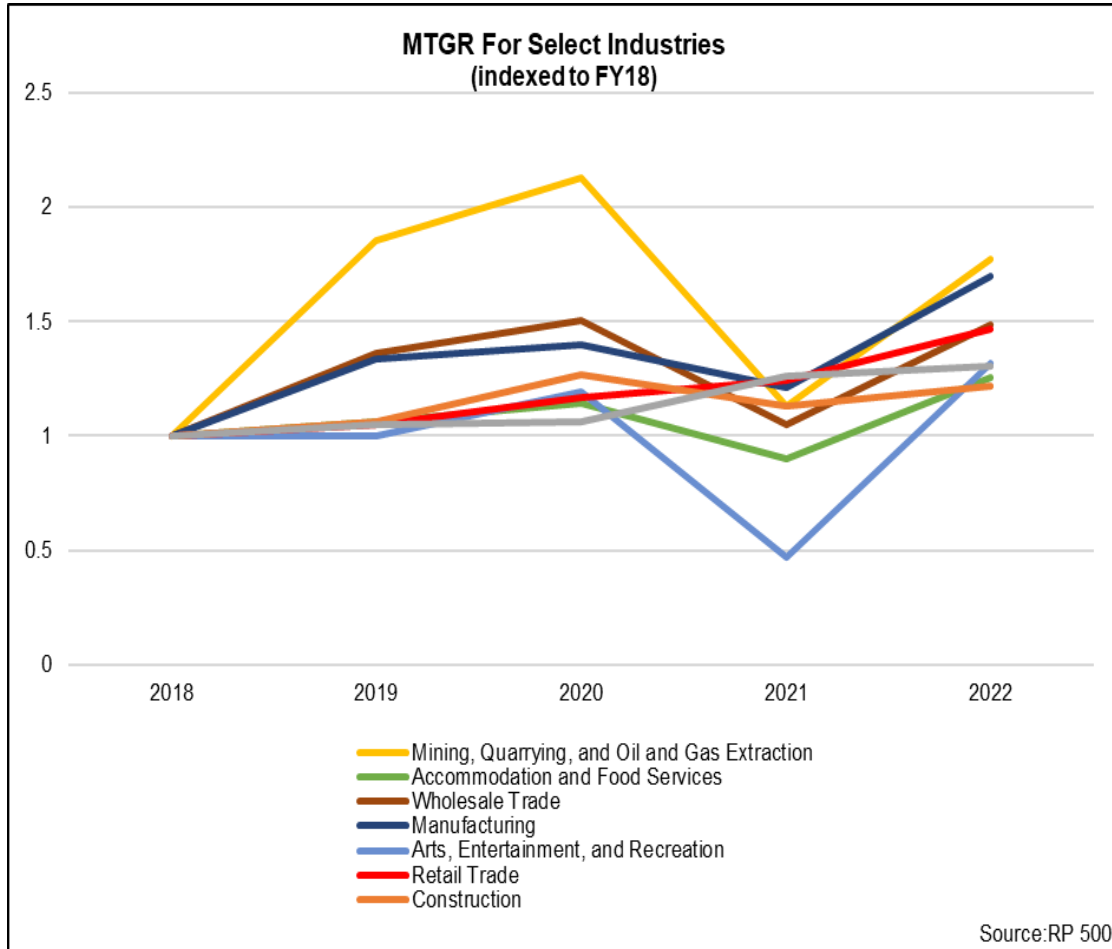


New Mexico MTGR

Year-over-Year % Change



FY22 MTGR shows recovery across sectors

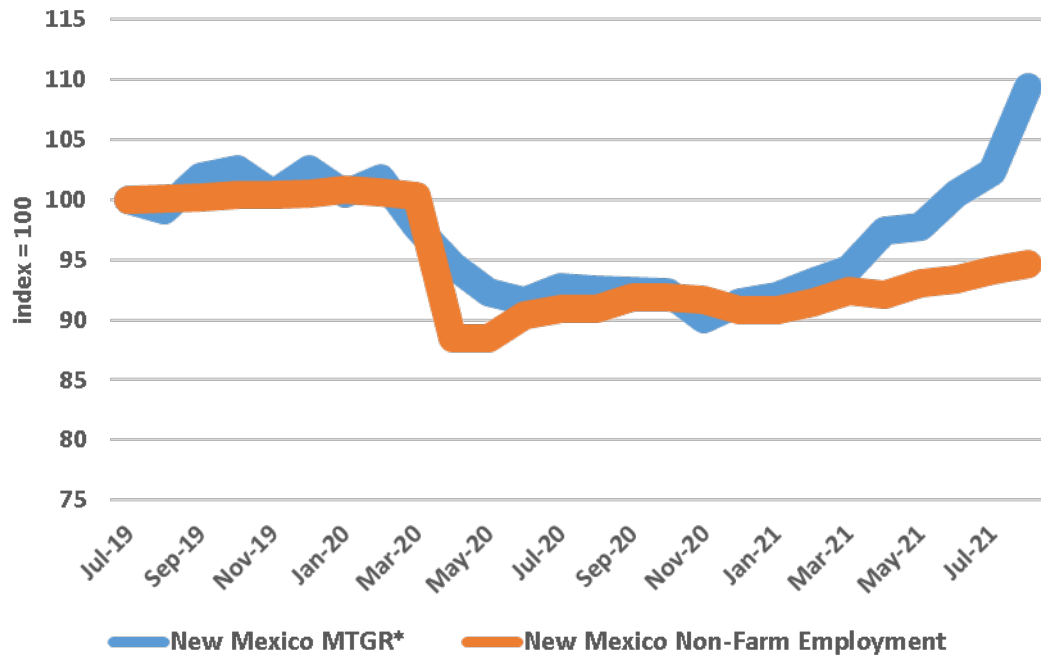


Matched Taxable Gross Receipts by Industry - FY22 vs FY21			
Industry	Matched Taxable Gross Receipts	Year-over-Year Growth	Year-over-Year Change
Mining, Quarrying, and Oil and Gas Extraction	\$1,002,354,862	\$363,120,190	56.8%
Utilities	\$520,628,290	-\$32,068,276	-5.8%
Construction	\$1,428,134,106	\$100,408,745	7.6%
Manufacturing	\$397,641,044	\$114,485,904	40.4%
Wholesale Trade	\$584,417,630	\$171,582,945	41.6%
Retail Trade	\$3,074,746,105	\$469,518,025	18.0%
Transportation and Warehousing	\$170,337,269	\$60,439,375	55.0%
Information	\$338,707,992	\$9,986,042	3.0%
Real Estate and Rental and Leasing	\$424,917,934	\$157,364,739	58.8%
Professional, Scientific, and Technical Services	\$1,132,116,624	\$55,682,692	5.2%
Administrative/Support & Waste Management/Remediation	\$575,154,780	\$16,194,397	2.9%
Health Care and Social Assistance	\$670,503,472	\$20,953,430	3.2%
Leisure and Hospitality Services	\$1,014,486,271	\$92,362,875	10.0%
Other Industries	\$1,472,999,191	\$488,701,621	22.1%
Total	\$12,807,145,571	\$2,088,732,703	19.5%

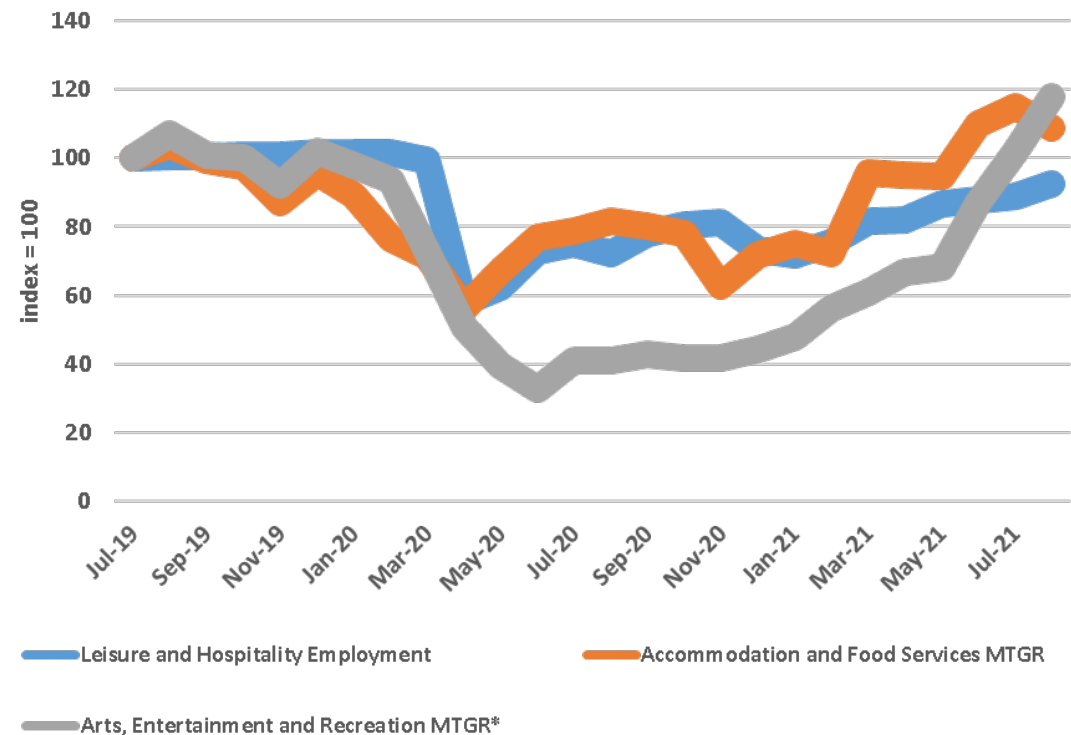
Source: RP500

MTGR has recovered, even in leisure and hospitality, however employment has not.

New Mexico Non-Farm Employment, and MTGR
(index=100)

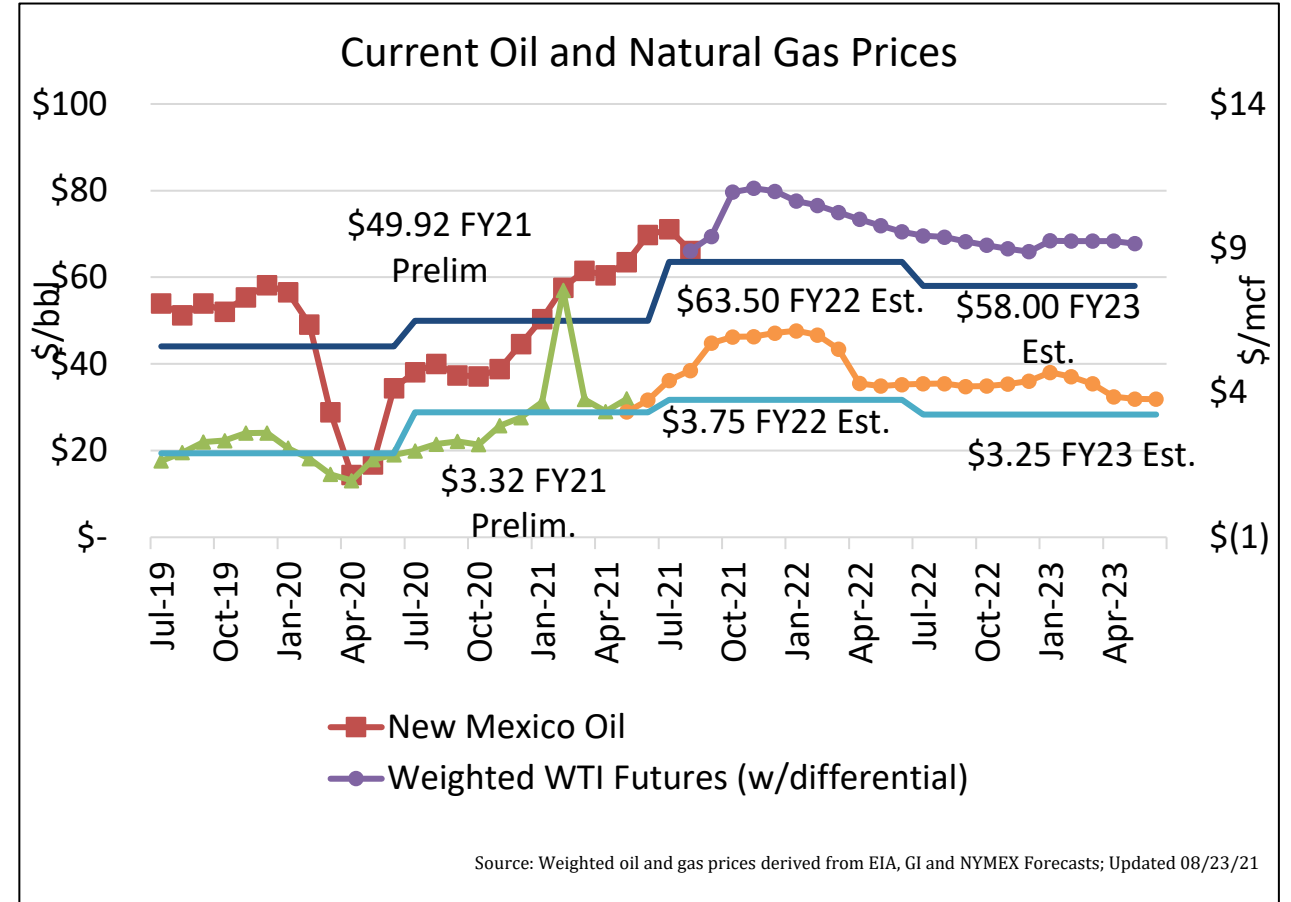
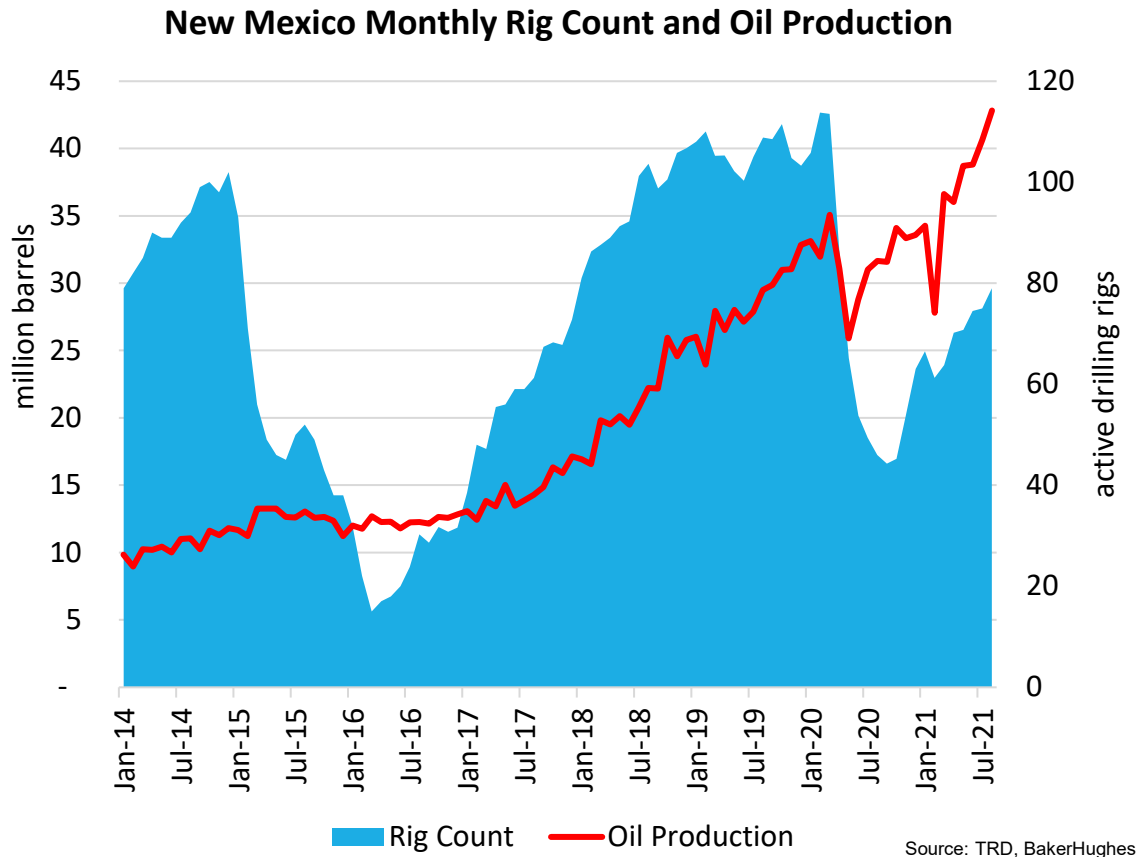


Leisure and Hospitality Employment, and MTGR
(index=100)

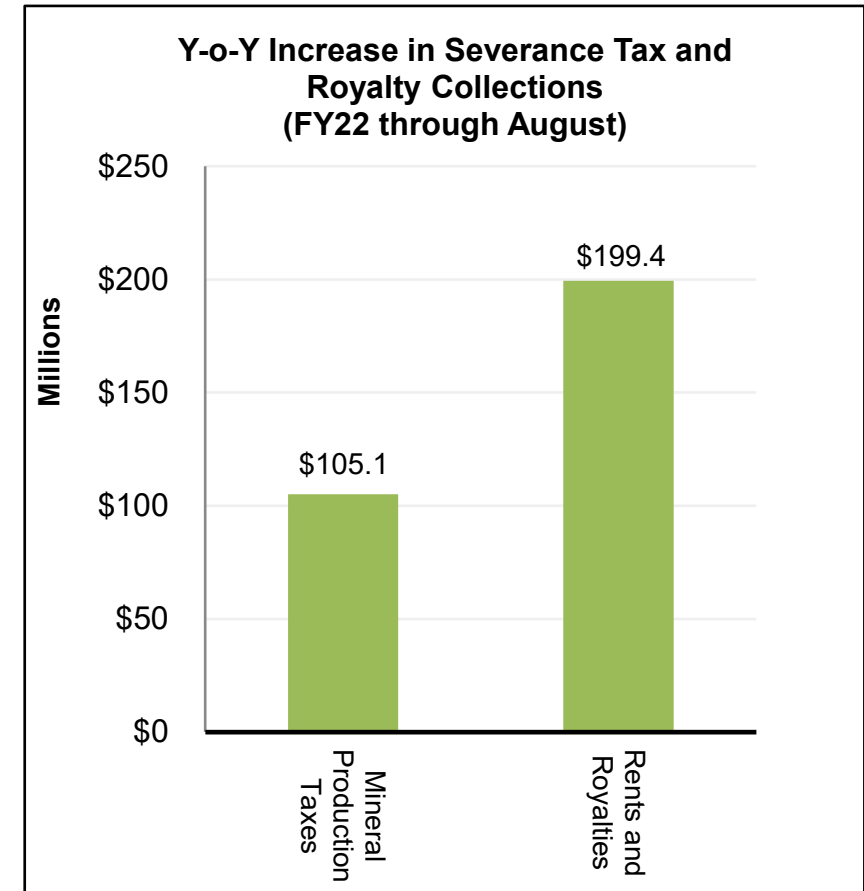
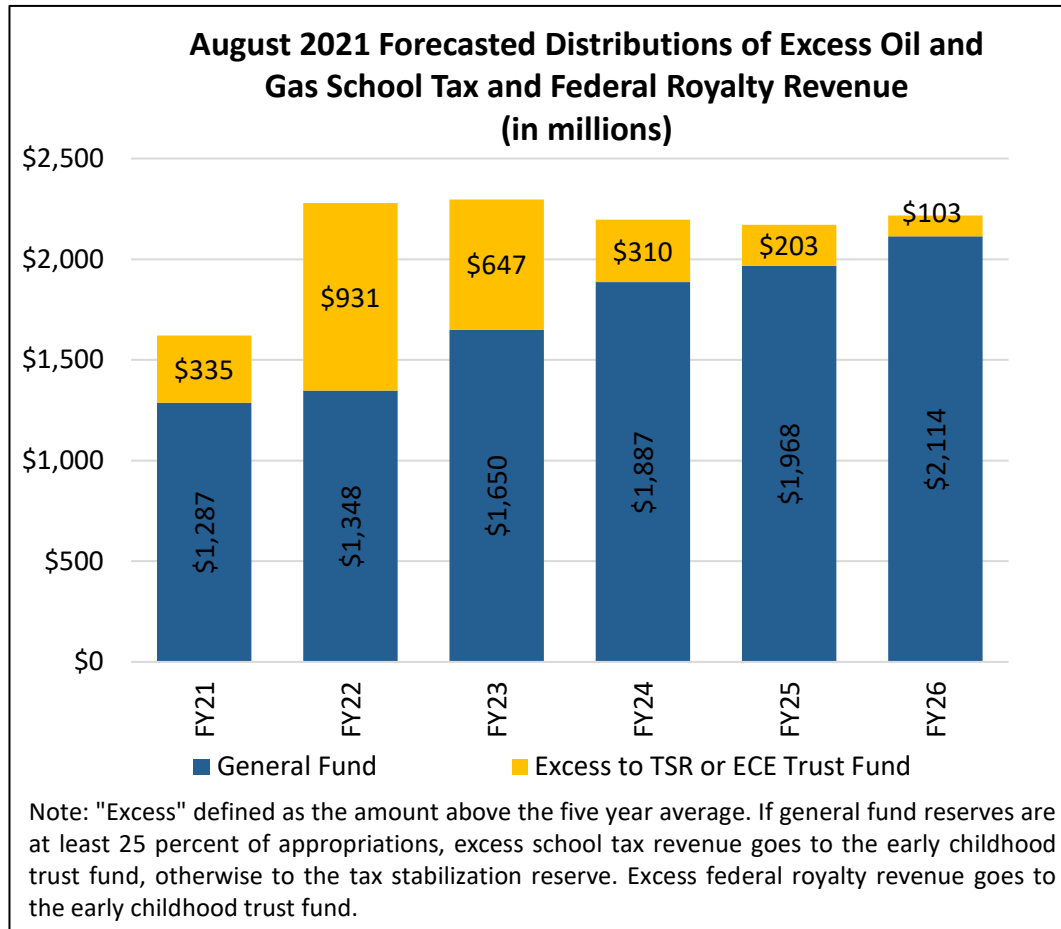


Oil and Gas Revenues

Rising production and high prices are fueling a sharp increase in severance taxes, rents, and royalties



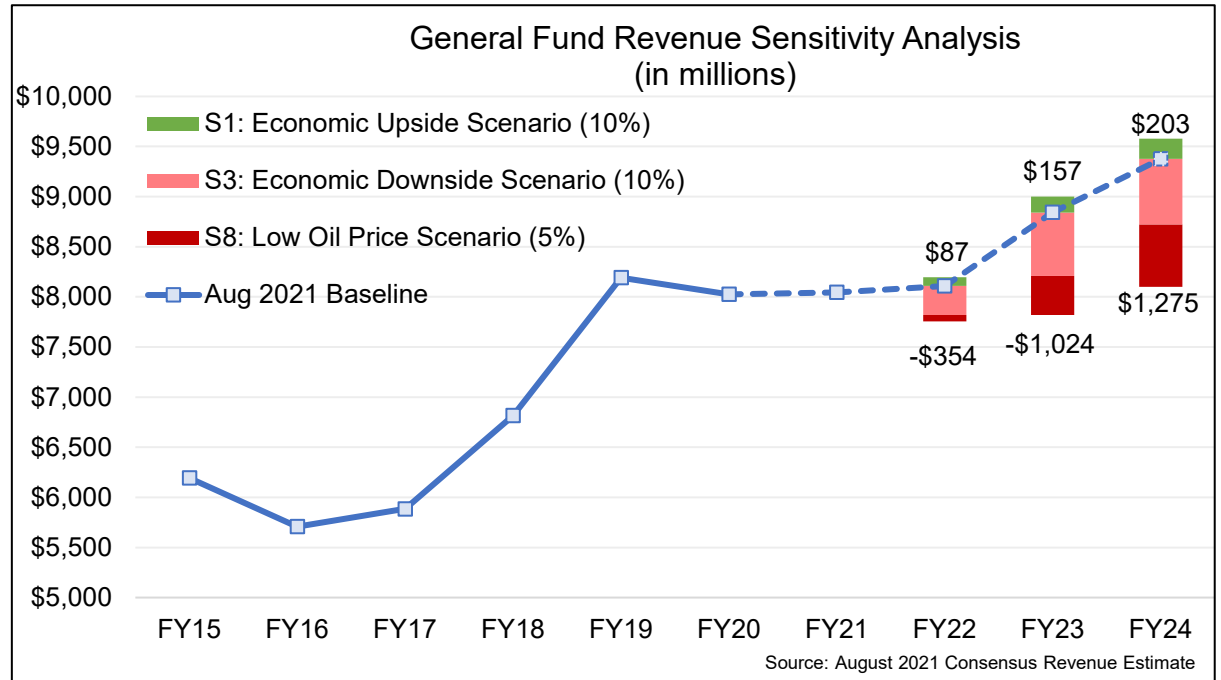
Reforms have protected the general fund from significant volatility as the early childhood education fund is expected to grow



August Forecast Recap and General Fund Revenue Tracking

August 2021 Consensus Recurring Revenue Outlook & Stress Test

Consensus Baseline	FY21	FY22	FY23
February 2021 Consensus*	\$7,194.5	\$7,475.9	\$7,876.2
August 2021 Adjustments	\$851.3	\$632.8	\$965.5
August 2021 Consensus	\$8,045.7	\$8,108.6	\$8,841.7
Annual percent change	2.4%	0.8%	9.0%



Revenue Scenarios, Difference from Baseline Forecast	Optimistic			Pessimistic		
	FY22	FY23	FY24	FY22	FY23	FY24
Severance Taxes	\$3	\$15	\$33	-\$22	-\$290	-\$384
Federal Mineral Leasing	\$0	\$2	\$8	\$0	-\$73	-\$153
Gross Receipts Taxes	\$38	\$77	\$93	-\$241	-\$515	-\$561
Income Taxes	\$47	\$63	\$69	-\$91	-\$146	-\$178
Total Difference from Baseline	\$87	\$157	\$203	-\$354	-\$1,024	-\$1,275

Note: dollars in millions

- **Stress-Testing:** Optimistic and pessimistic scenarios based on depth and duration of economic decline and alternative oil price/production assumptions

Good news: FY22 revenues currently tracking about \$28 million to \$33 million above the August 2021 consensus estimate

- Current data suggests FY22 general fund revenues are on track closer to the ‘optimistic’ scenario of the August 2021 forecast
 - Gross receipts and income tax collections continue to show strength with economic recovery
 - Permian basin has slowly recovered rigs and strongly recovered production
 - Oil prices tracking higher than expected in the baseline forecast

FY22 General Fund Revenue Tracking vs. August 2021 Forecast

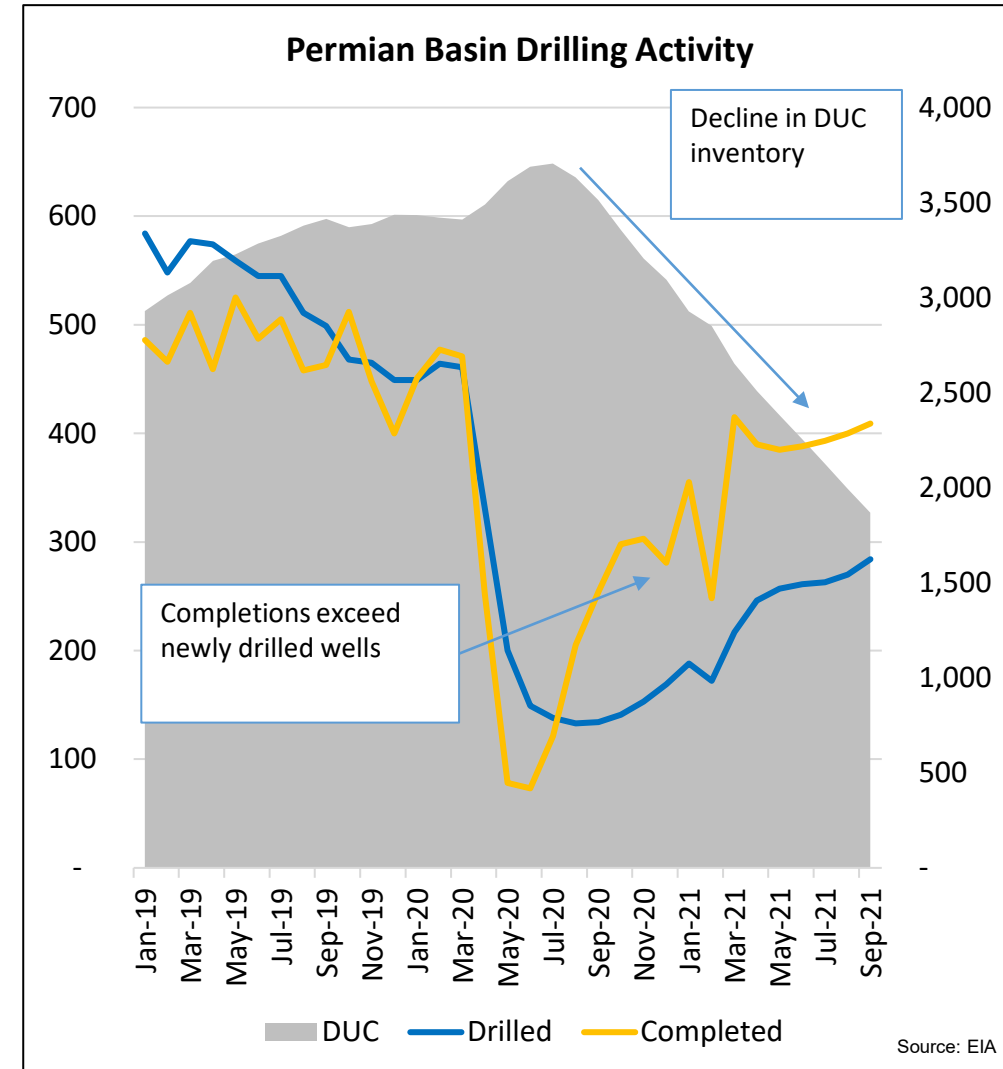
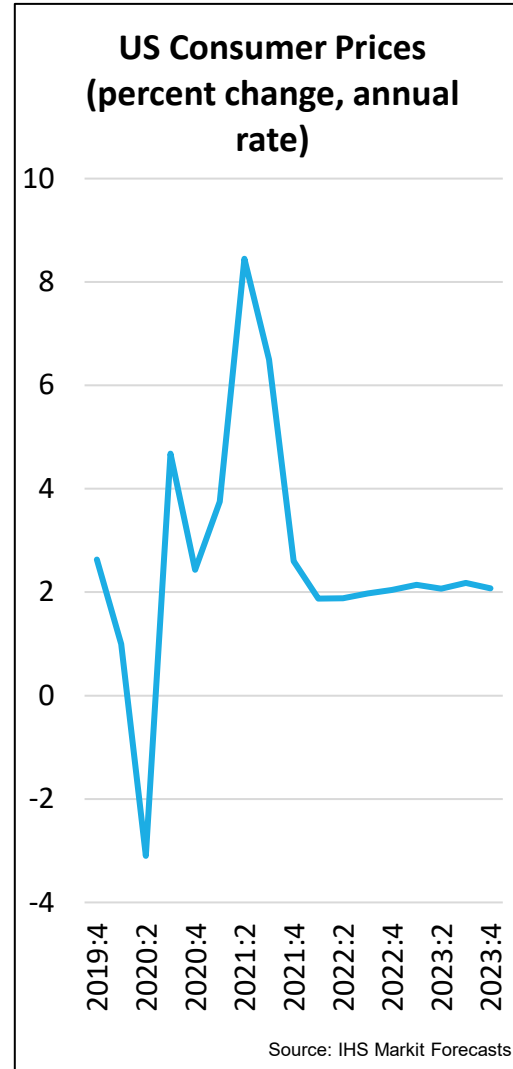


* Includes excess Oil and Gas Emergency School Tax revenues going to tax stabilization reserve
 Note: forecast adjusted for 2021 legislation

Source: DFA General Fund Report, TRD Gentax Reports, LFC Files

Reasons for Caution

- Recent uptick in transmission rate of the virus
- Labor market churn is intensifying
- Businesses may not be able to sustain reduced capacity operations despite surging demand
- Inflation remains a focus
- Capital markets dependent on federal reserve actions; large amounts of corporate debt
- Rigs are not keeping up with completions, depleting inventory
- Oil prices dependent on oil demand recovery and OPEC+ production cuts
- Further federal stimulus unclear



Budget Outlook Moving Forward

New Mexico Budget Outlook

- FY2021 General Fund recurring revenue increased by 2.4% over FY2020.
- FY2021 General Fund Reserves are 34.1%.
- FY2022 General Fund recurring revenue is estimated to increase by 0.8% compared to FY2021.
 - FY2022 does not grow much mainly due to legislative adjustments.
- FY2023 recurring revenue is forecasted to grow by 9% compared to FY2022.
 - New Mexico's "new money" is projected to be \$1.39 billion if the August 2021 Consensus Revenue Estimating Group (CREG) forecast holds.
 - FY2023 has higher growth than normal mainly due to the impact of legislative adjustments in FY22.
- The CREG is preparing the December 2021 revenue estimate during the month of November and will present their revenue estimate next month.