

Consensus General Fund Revenue Forecast

N.M. Taxation & Revenue Department
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Overview

- FY18 revenue grew by almost 15% vs. FY17
- Slower, but strong growth is forecast in FY19-FY23
- Reserves will exceed \$2.1 billion or 34% of FY19 spending
- New Money will exceed \$1.1 billion or 18% of FY19 spending
- Important tax policy issues on horizon
- Governor Martinez Legacy: Strong finances and tax reform

Table 1
August 2018 Consensus General Fund Recurring Revenue Outlook

(Millions of Dollars)

	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>
2018 Session Estimate	\$6,249	\$6,365	\$6,560	\$6,791	\$7,029	NA
August 2018 Revisions	\$495	\$914	\$942	\$949	\$1,048	NA
August 2018 Consensus	\$6,743	\$7,279	\$7,501	\$7,740	\$8,077	\$8,517
Change from Prior Year	\$857	\$536	\$222	\$239	\$337	\$440
Percent Change v Prior Year	14.9%	8.0%	3.0%	3.2%	4.4%	5.4%

- GRT from O&G drilling is adding to volatility
- Excludes O&G School Tax to Reserves -- \$130 million per year
- Forecast revenues would be the highest ever and reflect more risk due to volatility of O&G

Table 2
August 2018 Revisions (Change from Prior Estimate)
(Millions of Dollars)

	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>
Gross receipts tax	\$247	\$425	\$474	\$404	\$414
Selective sales taxes	(\$24)	(\$17)	(\$11)	(\$11)	(\$15)
Personal income tax	\$111	\$149	\$170	\$186	\$211
Corporate income tax	\$5	\$0	\$1	\$1	\$2
Energy-related revenues*	\$149	\$324	\$267	\$333	\$399
Investment/Interest earnings	\$6	\$26	\$41	\$42	\$44
Other revenues	\$1	\$8	\$0	(\$3)	(\$4)
Total Recurring Revenue	\$495	\$914	\$942	\$951	\$1,051

*Excludes O&G School Tax to Tax Stabilization Fund

- GRT, PIT and O&G revenue are up sharply
- O&G activity boom started mid-year FY18, full year expected in FY19 and after
- Premiums Tax revenue is down due to processing changes at the OSI
- Agriculture staying consistent representing about \$1.3 billion or 1.3% of the overall gross state product

Strong GRT growth in FY18

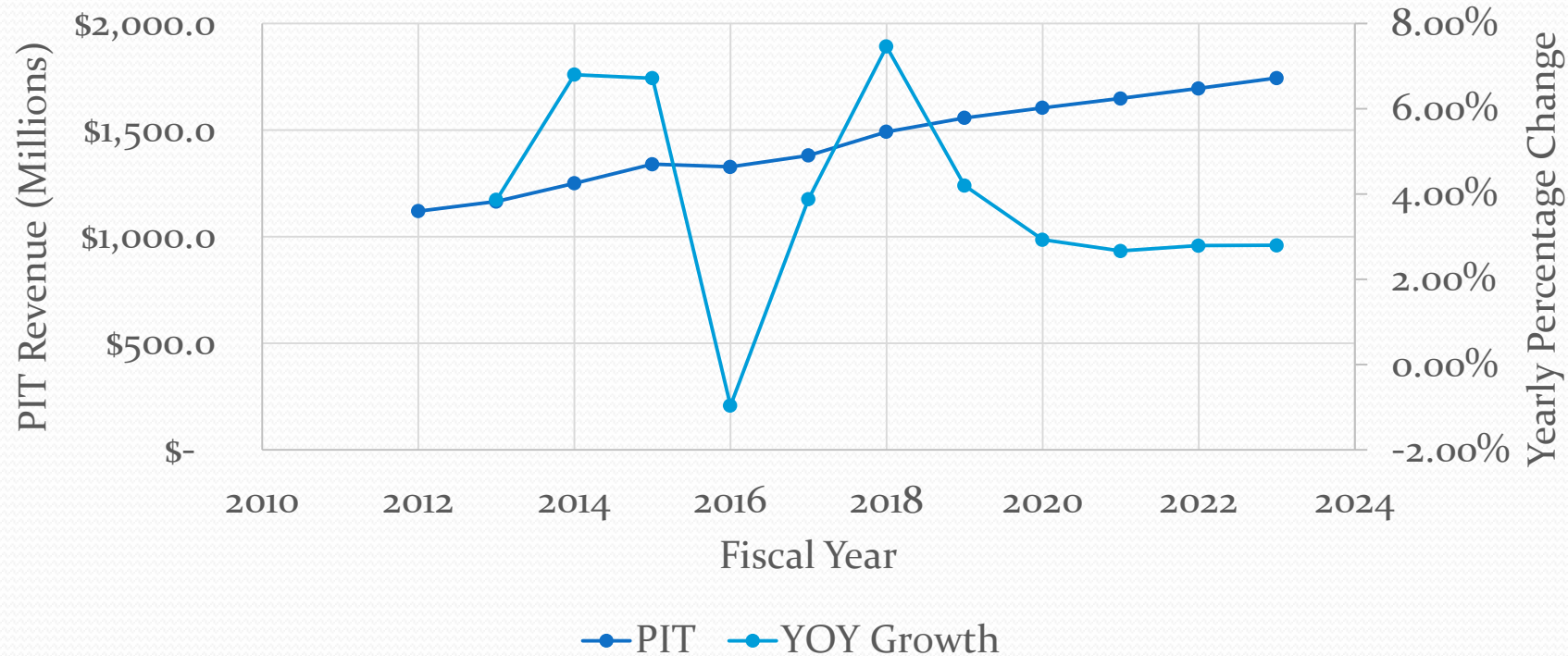
- O&G drilling-related TGR doubled in FY18 – contributed one-third of all growth
- Construction and Manufacturing growth in double digits
- Total tax base growth over \$7 billion, almost 14%

Taxable Gross Receipts Selected Sectors: FY18 vs FY17		
Industry	Amount Change	% Change
Mining & Oil and Gas	\$ 2,449,958,517	108.3%
Construction	\$ 735,641,575	11.1%
Manufacturing	\$ 174,965,622	12.1%
Wholesale	\$ 725,757,642	38.3%
Retail	\$ 1,050,829,402	8.8%
Transportation	\$ 205,880,270	34.2%
All Industries	\$ 7,137,989,189	13.6%
Source: TRD RP-500		

Factors contributing to GRT growth

- Albuquerque Rapid Transit construction increased Bernalillo/Albuquerque growth, initially estimated at a total cost of \$119 million, it is reportedly over budget by \$15 million for a total of \$134 million
- Online retailers estimated increase in FY18 of approximately \$30 million
- Transportation and Warehousing increased 21.5% the second half of FY18
- Professional Services increased 4.1% over the same period

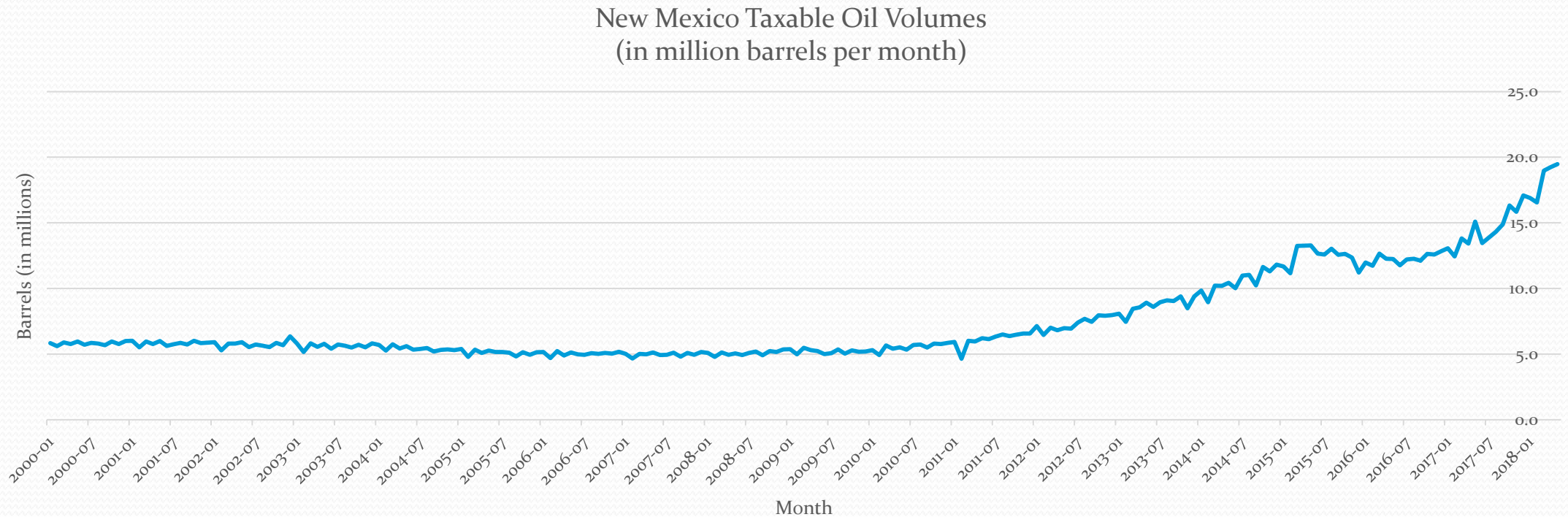
Personal Income Tax



- After flatlining in FY16, PIT has grown steadily for two years
- Tax Cuts and Jobs Act (TCJA) expected to add \$54 million per year starting in FY19

O&G Production is up sharply

- Oil production accelerated in FY18; Forecast to remain at high levels
- Permian – New-well oil production/rig over 500 barrels/day (2018) versus 100 barrels/day (2009) [EIA – August 2018]



Note: Data as August 13, 2018
Source: TRD, County Vol/Val by Filing Period Report

O&G Revenues will remain near historic highs

Table 3 – Oil Volumes & Prices

FY	Vol. (million barrels)	% growth	NM \$/barrel
FY17	156		\$44.7
FY18	202	29%	\$54.4
FY19	245	21%	\$56.0
FY20	270	10%	\$57.0

- Production growth continues but slows
- Steady oil prices
- Oil accounts for 90% of total O&G revenue

- Emergency School Tax revenue moving into Tax Stabilization Reserve

Table 4: Oil & Gas School Tax Distributions

	FY18	FY19	FY20	FY21	FY22	FY23
General Fund	427	369	369	403	473	535
Tax. Stab. Reserve	0	135	177	182	142	110
Total	427	504	546	585	615	645

State should consider treating some revenue as non-recurring

- GRT related to O&G drilling now several hundred million per year in General Fund revenue – more volatile than production revenue because drilling can be suspended as soon as prices drop
- Federal bonus payments forecasted to jump this year to unprecedented level – over \$200 million vs. history of \$40 to \$70 million -- bonuses are one-time payments, not really recurring revenue
- CREG is discussing ways to quantify these risks

US economic fundamentals are strong

- Low unemployment, modest inflation, strong corporate earnings, high consumer confidence, rising wages
- Consumer spending growing steadily, Business investment robust, O&G investment strong
- O&G fundamentals should support prices for the near term:
 - Global and US demand growth strong, Supplies are temporarily constrained by geopolitics and OPEC agreements
- US oil production is increasing but growth has recently slowed, this will support prices

But risks to growth are increasing

- Current US expansion nearing the longest on record
- Inflation causing Federal Reserve to increase interest rates, slowing demand for housing, investment
- International growth is slowing, large debt levels threaten emerging economies
- Housing supply not increasing, causing rapidly rising prices and affordability problems

NM Job Growth Accelerating

- NM job growth (2.1%) above US average (1.6%)
- Unemployment 4.9% vs 6.1% year ago
- Private sector added almost 16,000 jobs over the year
- Growth is spread among different sectors:
 - Construction up 2,800
 - Professional services up 4,300
 - Hospitality up 4,900
 - Transportation up 2,200
- Source: NM Workforce Solutions Department, *Labor Market Review*, June 2018

Federal law increased NM PIT for some families

- Estimated \$54 million in increased NM tax – households with three or more Exemptions
- Possible options:
 - Do nothing: Changes are temporary through 2025 and taxpayers will still have net savings due to lower federal tax liability
 - Allow old law personal exemption amount: Revenue decrease, only “winners”
 - Require old law Standard Deduction & Personal Exemption: Offsetting revenue increases and decreases; “Winners and losers”
 - Create a State level standard deduction & personal exemption

Internet Sales Taxation

- Implications of *Wayfair* Decision:
 - Nexus for GRT redefined – No longer requires physical presence
 - TRD updating guidance
 - Present law “sources” transactions “Out of State”; i.e. no local option; Changing this will require statutes, must be careful to treat out-of-state sellers similarly to in-state sellers
 - Supreme Court recommended prospective effective date
 - SC recommended de minimis threshold
 - SC recommended simplification, e.g. Streamlined Sales and Use Tax
 - TRD can permit agreements for third-party platforms but statute could clarify

Governor Martinez Legacy: 2011-2018

- Prudent financial management through two recessions to unprecedented reserves and budget strength:
 - Restrained budget growth while prioritizing Education, Public Safety and Economic Development
- Legacy of pro-growth tax reform:
 - Cut taxes and fees 57 times
 - Corporate Income Tax Reform – lower US tax rate makes even more important
 - GRT pyramiding relief for Manufacturing and Construction
 - Tax reform contributes to our diversification efforts