State of New Mexico
LEGISLATIVE FINANCE COMMITTEE

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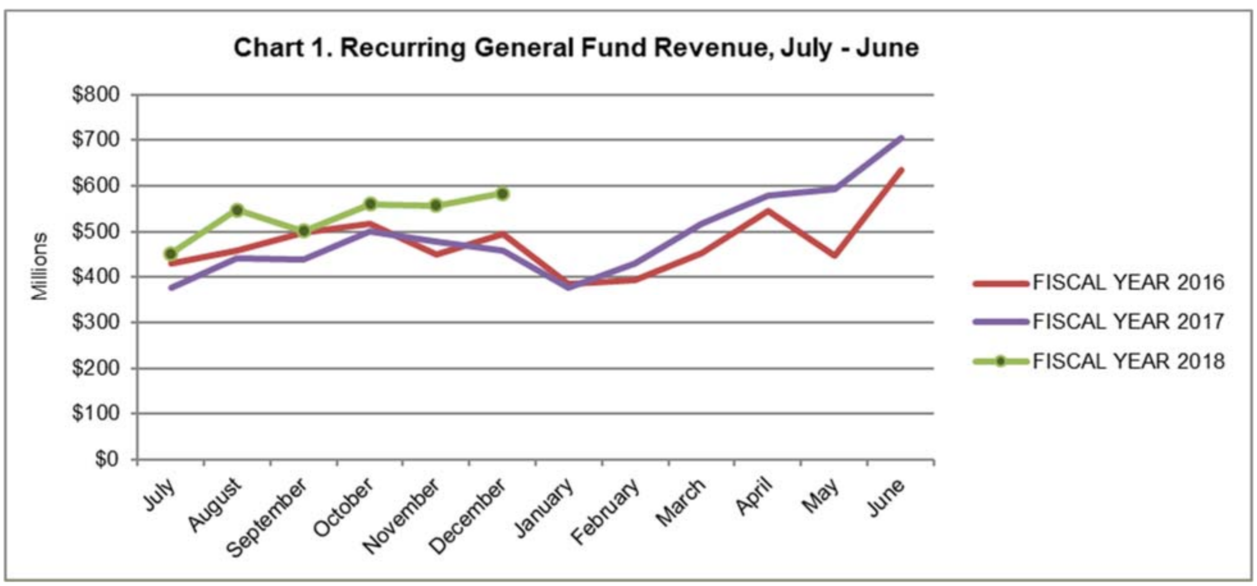
February 23, 2018

General Fund Revenue Tracking Report: Accruals through December 2017

This general fund revenue tracking report reflects revenue accruals through December 2017 as reported by the Department of Finance and Administration.

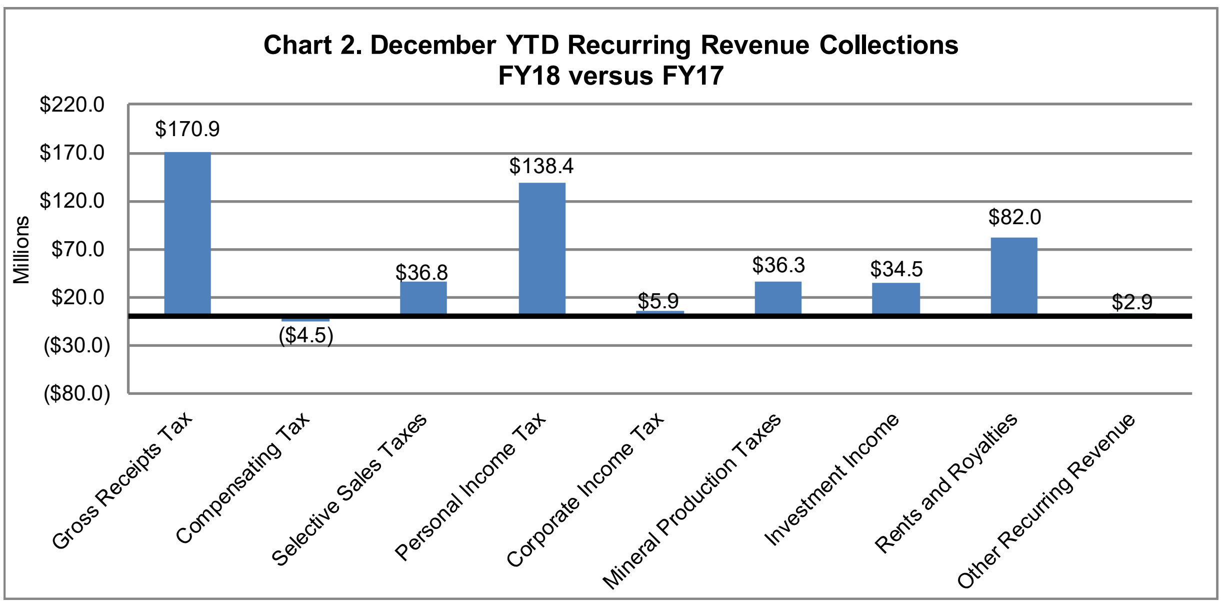
Summary. December recurring revenues were $584 million, up $125.2 million, or 27.3 percent, from a year ago. As shown in Chart 1 below, monthly recurring revenues for FY18 are consistently stronger than FY17. Recurring revenue collection for FY18 through December was $3.2 billion, up $503.3 million, or 18.7 percent from the same period a year ago. This growth significantly exceeds the consensus revenue forecast of a 6.2 percent increase in revenue for the full fiscal year, although risks accounted for in the forecast and December anomalies in personal income tax revenues account for a significant portion of the disparity in actual growth versus forecast growth.



December and Year-To-Date Revenues. Table 1 and Chart 2 below present the components of fiscal year-to-date (FYTD) revenue through December for FY18 versus FY17.

Table 1. General Fund Revenue Accruals: FY18 vs. FY17							
Revenue Category	**December Revenue**	**December Revenue**	**Fiscal Year-to-Date Through December**		**Year-over-Year Amount Change**	**Year-over-Year Growth**	**Projected Full-Year Growth: Jan. 2018 Forecast**
	FY17	**FY18**	**FY17**	**FY18**			
Gross Receipts Tax	$ 192.2	$ 195.4	$990.5	$1,161.4	$170.9	17.3%	6.2%
Compensating Tax	$ 5.5	$ 6.6	$24.3	$19.8	($4.5)	-18.5%	10.2%
Selective Sales Taxes *	$ 24.8	$ 26.4	$255.6	$292.4	$36.8	14.4%	5.0%
Personal Income Tax	$ 82.7	$ 199.1	$604.3	$742.8	$138.4	22.9%	0.0%
Corporate Income Tax	$ (8.4)	$ (11.0)	$4.3	$10.1	$5.9	138.7%	49.7%
Mineral Production Taxes *	$ 30.9	$ 33.5	$159.2	$195.5	$36.3	22.8%	14.3%
License Fees	$ 9.0	$ 10.7	$20.8	$24.0	$3.2	15.2%	1.6%
Investment Income	$ 62.0	$ 66.9	$364.1	$398.7	$34.5	9.5%	7.7%
Rents and Royalties	$ 33.2	$ 39.3	$216.0	$298.0	$82.0	38.0%	19.3%
Tribal Revenue Sharing	$ 14.5	$ 16.1	$30.9	$31.8	$0.9	3.0%	3.3%
Miscellaneous Receipts	$ 8.3	$ 1.1	$20.2	$22.3	$2.1	10.6%	2.5%
Reversions	$ 4.1	$ 0.0	$7.1	$3.8	($3.3)	-46.7%	-47.7%
Subtotal Recurring Rev.	**$ 458.8**	**$ 584.0**	**$2,697.3**	**$3,200.5**	**$503.3**	**18.7%**	**6.2%**
Nonrecurring Revenue	$ (0.2)	$ (0.1)	$97.6	$8.6	($88.9)	-91.1%	-88.2%
Total Revenue	**$ 458.6**	**$ 584.0**	**$2,803.2**	**$3,209.2**	**$406.0**	**14.5%**	**-2.2%**

*Includes estimates for Insurance, Oil and Gas School Tax, and Oil Conservation Tax



Gross receipts tax (GRT) revenues continue to climb, albeit at a slower pace, with December up $3.2 million compared with the same month a year ago. Despite the year-over-year increase, December GRT revenue was less than projected at $195.4 million, but November revenue was surprisingly high, and both results were apparently due to an effective shift of revenues from December to November due to fluctuating 60-day money and other credits. GRT revenue year-to-date was up $170.9 million, or 17.3 percent. This significantly exceeded the forecast for 6.2 percent growth for the entire fiscal year. However, the consensus revenue estimating group (CREG), as noted in the forecast, accounted for some of the known revenue risks. By taking risks into account, it is expected that GRT revenues would track above the forecast until one or more risks comes to fruition and negatively impacts the revenues.

Personal income tax (PIT) revenues for December were up $116.3 million from a year ago. This is due to an unusually small amount for PIT refunds this month, which totaled just $11 million compared with more than $70 million in December 2017 and December 2016. Additionally, PIT final settlements were much higher than typically seen in December, and these two impacts combined to boost the revenue tracking by $97 million. It appears there was some sort of sudden, significant change by taxpayers, the Taxation and Revenue Department (TRD) or both. LFC staff sent a request to TRD for more information to explain this anomaly. Preliminarily, LFC economists expect PIT revenues in one or more future months this fiscal year will be much lower than expected to offset the unusually high December amount. Given uncertainties on how federal income tax reform will affect New Mexico PIT revenues (with competing upward and downward pressures), CREG chose not to update the PIT forecast in the January mid-session update, but it is possible these anomalies could be due to changes in taxpayer behavior related to the federal reform.

Corporate income tax (CIT) revenues through December are up $5.9 million from the same period a year ago; however, revenues are tracking $13.9 million below the consensus forecast.

Mineral production taxes from the oil and gas industry were up $36.3 million year-to-date, or 22.8 percent, from this time last year. Rents and royalties from the oil and gas industry are up $82 million above last year. Combined, these energy revenue sources are up over $118 million year-to-date, or 31.5 percent. The substantial growth in energy revenues is due almost entirely to increased oil prices and growth in oil production, which reached record highs. The 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.

Insurance Revenues. Quarterly insurance revenues came in stronger than expected in both August and November, and the actual revenues plus projections are tracking at $21.9 million above the forecast. These revenues are always recorded at a later date than most other revenues due to differences in accrual and reporting periods, and the November revenue accruals were not finalized until mid-February. Insurance companies are reporting in a monthly pattern that, while seemingly much more consistent now, differs from patterns seen in prior fiscal years following significant state efforts to review and audit premium tax collections. As a result, FY18 will likely be the start of a new trend of when revenues are received over the course of a fiscal year. This new data should allow for a return to more precise forecasting in the future, as this is typically a revenue source that can be forecast with significant accuracy. LFC staff are also working with the Office of Superintendent of Insurance (OSI) to verify none of the revenues shown in that line item were from nonrecurring payments resulting from the premium tax audit. OSI identified $8.3 million of November revenues that were nonrecurring and subsequently moved to the correct revenue line, but additional adjustments will be necessary over the next few months.

Revenue Tracking. The last page provides the general fund revenue tracking report and chart for FY18. The report details the actual revenues received year-to-date and the projected revenues for the remainder of the fiscal year based on the January 2018 consensus revenue estimate. Traditionally, projections for revenue collections through the end of the fiscal year are based on historical monthly shares of revenue collections by revenue source. Due to continued revenue strength in GRT and the anomalous high PIT revenue for December, recurring revenues are now tracking at about $131.3 million, or 2.1 percent, above the January estimate of $6.2 billion. Again, strength above the estimate is expected at this point, particularly for GRT revenue, as forecasters considered some revenue risks in the estimate that have potential to occur later in the fiscal year.

Gross Receipts. Underlying economic activity showed continued strength throughout the first half of FY18; matched taxable gross receipts (MTGR) was up 12.4 percent year-to-date. MTGR reconciles tax returns against payments to account for total revenues generated by business activity within a given month. All but one industry shown below in Table 2 improved over the fiscal year through December, with the exception of the administrative/support and waste management/remediation industry, which declined slightly from the same period a year ago. Growth in the mining industry more than doubled in the period through December, growing by 106 percent and continuing to hold its recent noteworthy position as the fifth largest industry in the state. However, this industry provides significant direct and indirect effects on other industries that often provide supporting services for oil and gas production, making the industry's impact far larger.

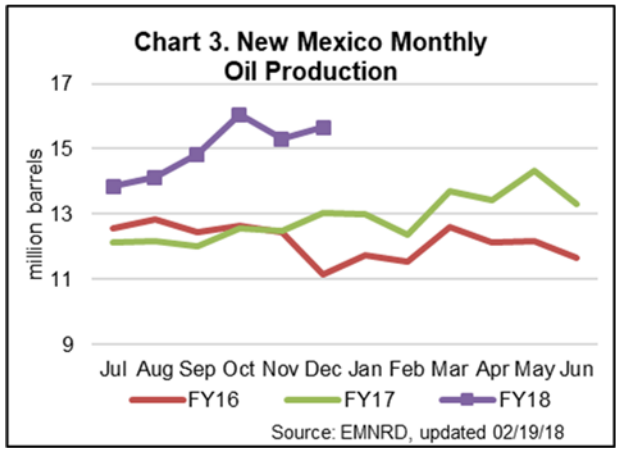
In part buoyed by the impacts of the rebound in the oil and gas industry, all but one major industry showed growth in the first half of the fiscal year. Wholesale trade grew by 33.3 percent, the transportation and warehousing and real estate industries grew by more than 20 percent, and the construction and manufacturing industries grew by more than 10 percent.

The growth in manufacturing is striking, rising from a 14 percent loss in FY17 to a 2 percent gain for the first quarter of FY18 and to a 29.6 percent gain for the second quarter. The first half of FY18 showed a 14.6 percent gain overall despite continued losses of manufacturing jobs. This discrepancy and the growth rate for manufacturing MTGR indicates there might be companies supporting the oil and gas industry that file as manufacturers with TRD but as other industries with the Workforce Solutions Department (WSD), which reviews industry filing statuses and will force changes if companies file incorrectly. It might be useful for TRD to adopt the WSD industry filing statuses to better align the datasets and help prevent possible exploitation of industry-specific tax expenditures.

Table 2. Matched Taxable Gross Receipts by Industry July 2017 - December 2017

Industry	Matched Taxable Gross Receipts	Year-over-Year Change
Mining, Quarrying, and Oil and Gas Extraction	$2,071,041,532	106.4%
Utilities	$1,248,614,189	4.8%
Construction	$3,671,631,322	15.2%
Manufacturing	$781,361,759	14.6%
Wholesale Trade	$1,232,901,917	33.3%
Retail Trade	$6,659,771,795	6.7%
Transportation and Warehousing	$375,731,821	27.4%
Information	$1,281,445,408	0.6%
Real Estate and Rental and Leasing	$721,013,924	22.0%
Professional, Scientific, and Technical Services	$3,090,248,960	2.2%
Administrative/Support & Waste Management/Remediation	$614,932,534	-0.2%
Health Care and Social Assistance	$1,483,842,739	9.1%
Leisure and Hospitality Services	$2,322,451,293	4.5%
Other Industries	$2,903,811,076	n/a
Total	**$28,458,800,268**	**12.4%**

Oil and Gas. Charts 3 and 4 present the oil and gas production data reported by the Energy, Minerals and Natural Resources Department's Oil Conservation Division (OCD). Reporting by producers is due 45 days after the production month. New Mexico continues to produce oil at levels well above FY17 and FY16 levels, shown in Chart 3. Oil production reported for December was 15.7 million barrels, up 20.1 percent from 13 million barrels in December 2016. Oil production fiscal-year-to-date is tracking above that of a year ago, up over 20 percent, or about 15.4 million barrels. The state had 73 active drilling rigs in December, and Baker-Hughes shows New Mexico's active rigs rose to 81 in January 2018, indicating potential for even greater reported oil production in January.



Natural gas production data from OCD for December is incomplete, likely due to late reporting by a large producer. November natural gas production was 106.5 billion cubic feet, down 4.4 billion cubic feet, or 4 percent, from November 2016. As illustrated in Chart 4, natural gas production fiscal-year-to-date is down 0.2 percent, or 1.3 billion cubic feet, compared with the same period a year ago.

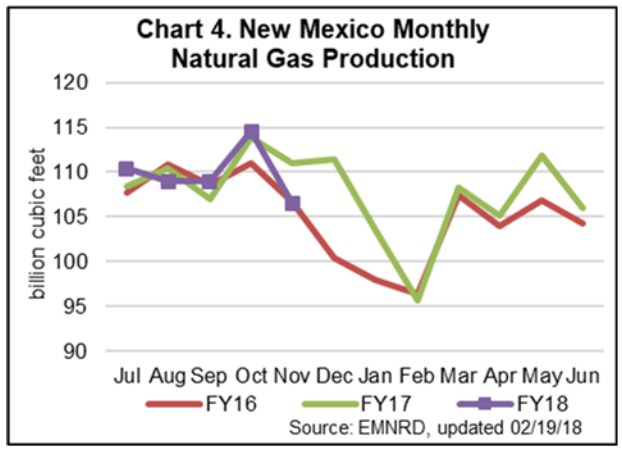
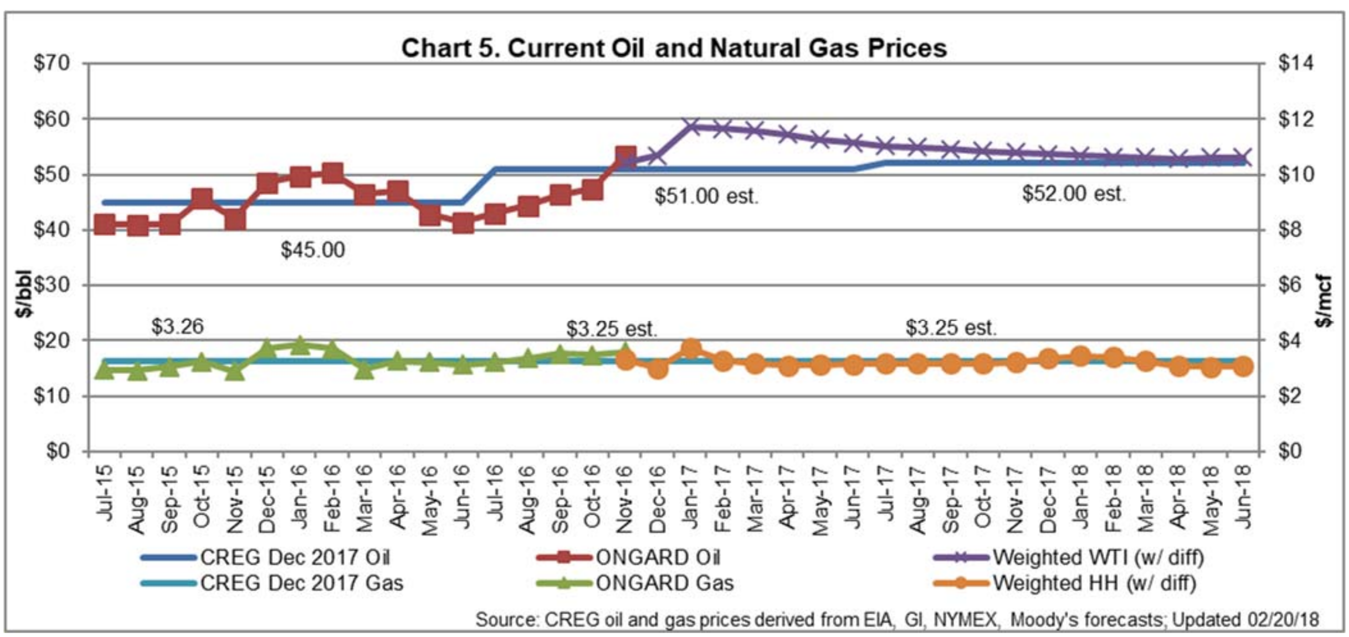


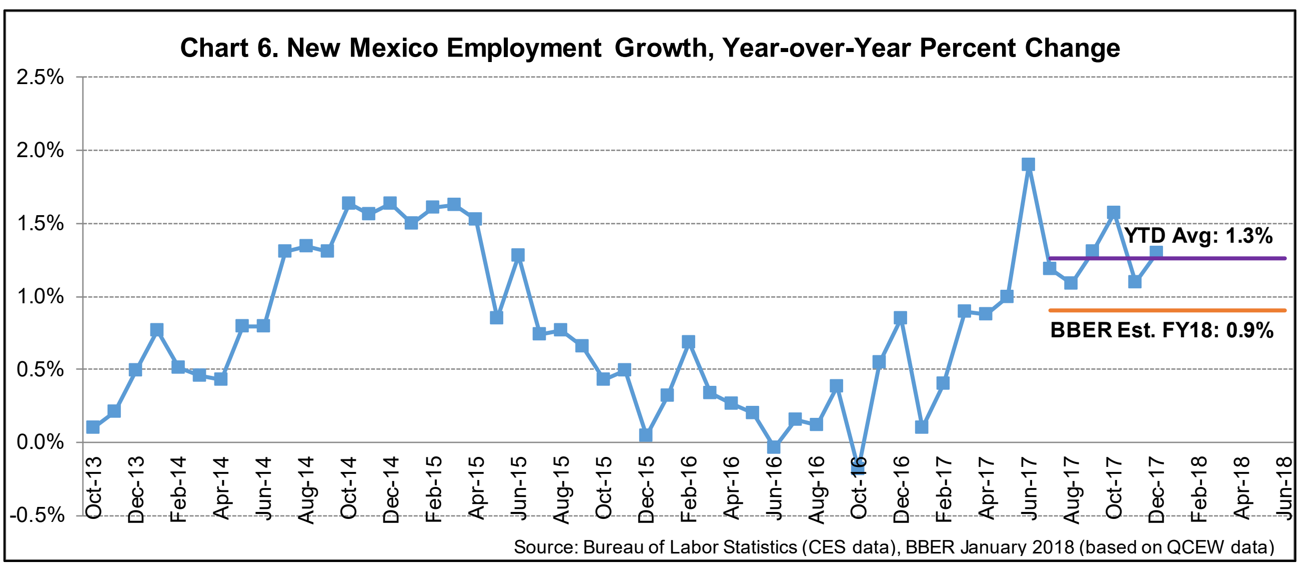
Chart 5 presents New Mexico oil and gas price data (ONGARD) and an average weighted West Texas Intermediate (WTI) price and Henry Hub (HH) price as indicated by the U.S. Energy Information Administration (EIA), Moody's Analytics, and NYMEX futures and includes the average price differential.



Average weighted WTI prices are tracking slightly above the consensus forecast for FY18. Combined with current ONGARD data for New Mexico oil prices through November, the state's FY18 oil price is tracking at about $52.69, compared with the consensus forecast of $51. The average WTI oil price in December was $57.87/bbl, up from $56.62 in November. The most recent ONGARD data show New Mexico oil was priced at $53.42 in November, up from $47.70 in October. The average price differential between New Mexico oil prices and WTI prices this fiscal year is now -$3.61/bbl.

Natural gas prices for FY18 are tracking at $3.31/mcf, compared with the consensus forecast of $3.25. New Mexico natural gas prices are averaging 37 cents above Henry Hub prices so far this fiscal year. The most recent ONGARD data show New Mexico natural gas prices were $3.60 in November, above the Henry Hub price of $3.13 that month. In December, Henry Hub gas prices dropped to $2.92.

Employment Trends. Chart 6 below reflects New Mexico year-over-year employment growth. December employment growth was 1.3 percent, according to preliminary data released by the Bureau of Labor Statistics based on the current employment statistics (CES) survey data. Average employment growth fiscal-year-to-date is 1.3 percent, above the BBER forecast of 0.9 percent for FY18. However, BBER's forecast is based on more reliable quarterly census of employment and wages (QCEW) data, for which reporting is more delayed than preliminary, monthly BLS data. There was a significant divergence in CES and QCEW data over the 2017 calendar year, with CES data reporting higher than QCEW data by nearly a percentage point. Until CES data is benchmarked against QCEW data in March 2018, the high employment figures should be viewed with caution as they may be revised downward.



Based on the CES preliminary data, the Workforce Solutions Department reports New Mexico added 10.8 thousand nonagricultural jobs in December, with gains coming from the private sector. The largest growth was in the leisure and hospitality sector and the construction industry, which each added 3,100 jobs, representing a 3.2 percent year-over-year gain for leisure and hospitality and a 7 percent gain for construction. Education and health services; financial activities; retail trade; professional and business services; local government; and transportation, warehousing, and utilities all added jobs in December. New Mexico lost jobs in the mining (700 jobs), information (400 jobs), manufacturing (200 jobs), federal government (200 jobs), and state government (500 jobs) sectors.

Explanation of Revenue Tracking Method. Appendix 1 shows the latest consensus revenue estimates and monthly accruals in detail. These estimates were finalized in January 2018. The monthly numbers shown in bold are actuals as reported by the Department of Finance and Administration. The entries in italics are extrapolated from Taxation and Revenue Department accounting documents. The entries in ordinary typeface are a monthly allocation of the annual estimate for the remaining months, based on seasonal historical patterns. They are prepared by LFC staff. The four shaded columns are of particular importance. The column labeled "FY18 Actual + Estimate" is a sum of monthly DFA actuals, TRD accounting documents, and LFC estimates. The column entitled "FY18 Forecast" is the latest consensus revenue estimate. The next two columns calculate the tracking change in percentage and absolute terms.

FISCAL YEAR 2018 GENERAL FUND MONTHLY REVENUE TRACKING

(dollars in millions; italics indicate preliminary actual revenue; bold indicates actual revenue)

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	ESTIMATED REVENUE ACCRUALS												FY18	TRACKING CHANGE (Δ)		
	July Actual	Aug Actual	Sept Actual	Oct Actual	Nov Actual	Dec Actual	Jan *Prelim.*	Feb Est.	Mar Est.	Apr Est.	May Est.	June Est.	Actual + Estimate	FY18 Jan. Forecast	YTD % Δ	YTD $ Δ
Gross Receipts Tax	**189.5**	**195.6**	**182.7**	**188.5**	**209.8**	**195.4**	170.0	162.8	168.8	181.6	170.5	204.1	2,219.2	2,137.9	3.8%	81.3
Compensating Tax	**4.5**	**4.9**	**6.7**	**5.6**	**(8.5)**	**6.6**	4.1	4.0	4.8	4.2	4.2	5.2	46.3	53.5	-13.5%	(7.2)
TOTAL GENERAL SALES TAXES	**194.0**	**200.5**	**189.4**	**194.1**	**201.3**	**202.0**	174.1	166.8	173.6	185.8	174.7	209.4	2,265.5	2,191.4	3.4%	74.1
Tobacco Products & Cigarette Taxes	**7.5**	**7.4**	**6.2**	**6.3**	**5.6**	**6.1**	5.8	6.3	6.5	6.6	6.3	8.4	79.0	79.4	-0.5%	(0.4)
Liquor Excise Tax	**1.1**	**2.2**	**1.9**	**2.2**	**2.2**	**2.3**	1.5	1.6	1.9	1.9	1.9	2.4	23.1	23.5	-1.5%	(0.4)
Insurance Premiums Tax	**0.4**	**66.5**	**0.9**	**2.9**	**61.6**	0.7	0.7	63.4	0.7	0.7	55.1	0.7	254.3	232.4	9.4%	21.9
Fire Protection Fund Reversion	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-	18.7	18.7	17.8	4.9%	0.9
Motor Vehicle Excise Tax	**12.4**	**14.1**	**12.9**	**12.1**	**11.5**	**11.8**	12.4	11.3	13.9	13.6	13.8	13.2	153.1	150.3	1.9%	2.8
Gaming Excise Tax	**5.2**	**5.0**	**5.1**	**4.8**	**4.7**	**5.1**	5.0	5.0	5.0	5.0	5.0	5.0	59.7	59.6	0.2%	0.1
Leased Vehicle Surcharge & Other	**0.6**	**1.5**	**0.1**	**0.7**	**0.3**	**0.4**	0.5	0.5	0.6	0.6	0.7	0.7	7.2	7.6	-4.7%	(0.4)
TOTAL SELECTIVE SALES TAXES	**27.3**	**96.8**	**27.1**	**29.0**	**85.8**	**26.4**	25.9	88.1	28.6	28.4	82.8	49.0	595.2	570.6	4.3%	24.6
Withholding	**94.5**	**95.5**	**107.6**	**91.1**	**98.7**	**148.2**	94.2	94.8	112.7	99.5	101.1	109.9	1,247.9	1,265.3	-1.4%	(17.4)
Final Settlements	**-**	**12.1**	**47.0**	**24.6**	**9.7**	**60.8**	*32.2*	12.9	36.2	148.8	26.2	64.9	475.3	469.7	1.2%	5.6
Oil and Gas Withholding Tax	**-**	**0.4**	**3.8**	**12.0**	**3.3**	**1.8**	*8.9*	3.8	5.0	6.0	5.1	13.5	63.7	60.5	5.2%	3.2
Fiduciary Tax	**(0.7)**	**0.7**	**(1.1)**	**(0.1)**	**1.6**	**1.5**	0.3	0.1	3.0	0.2	1.6	(0.1)	7.0	6.1	14.8%	0.9
Gross Personal Income Tax	**93.8**	**108.7**	**157.3**	**127.6**	**113.3**	**212.3**	135.7	111.6	156.9	254.4	134.0	188.1	1,793.8	1,801.5	-0.4%	(7.7)
Transfer to PIT Suspense	**(8.6)**	**(7.8)**	**(11.7)**	**(9.4)**	**(8.5)**	**(11.1)**	(111.3)	(72.4)	(46.7)	(19.6)	(12.9)	(8.4)	(328.5)	(393.4)	-16.5%	64.9
Retiree Health Care	**(2.2)**	**(2.2)**	**(2.2)**	**(2.2)**	**(2.2)**	**(2.2)**	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.5)	(26.8)	(27.1)	-1.0%	0.3
Less: Refunds, distributions to other funds	**(10.8)**	**(10.0)**	**(13.8)**	**(11.6)**	**(10.7)**	**(13.3)**	(113.6)	(74.6)	(48.9)	(21.8)	(15.1)	(10.9)	(355.3)	(420.4)	-15.5%	65.2
NET PERSONAL INCOME TAX	**83.0**	**98.7**	**143.5**	**116.0**	**102.5**	**199.1**	22.1	37.0	108.0	232.6	118.9	177.2	1,438.5	1,381.1	4.2%	57.5
CORPORATE INCOME TAX	**-**	**3.8**	**0.5**	**25.3**	**(8.5)**	**(11.0)**	*9.1*	0.2	13.8	8.1	9.3	24.4	75.2	105.0	-28.4%	(29.8)
TOTAL INCOME TAXES	**83.0**	**102.5**	**144.0**	**141.3**	**94.0**	**188.1**	31.2	37.2	121.9	240.7	128.2	201.7	1,513.7	1,486.1	1.9%	27.7
Oil and Gas School Tax	**25.2**	**26.6**	**27.7**	**31.4**	**35.3**	30.4	30.1	28.0	31.7	31.3	30.5	27.0	355.2	352.7	0.7%	2.5
Oil Conservation Tax	**1.3**	**1.4**	**1.4**	**1.6**	**1.8**	1.6	1.6	1.5	1.7	1.6	1.8	1.4	18.7	18.3	2.1%	0.4
Resources Excise Tax	**0.7**	**0.8**	**0.7**	**0.7**	**0.9**	**0.7**	0.8	0.7	0.8	0.7	0.7	0.8	9.1	9.3	-2.0%	(0.2)
Natural Gas Processors Tax	**1.0**	**0.8**	**0.9**	**0.9**	**0.8**	**0.8**	0.8	0.8	0.9	0.8	0.9	0.8	10.2	10.2	0.3%	0.0
TOTAL MINERAL PROD. TAXES	**28.3**	**29.5**	**30.8**	**34.6**	**38.8**	**33.5**	33.3	31.0	35.1	34.5	33.9	30.0	393.2	390.5	0.7%	2.7
LICENSE FEES	**2.3**	**2.5**	**2.2**	**3.9**	**2.4**	**10.7**	6.7	3.3	3.2	3.0	3.3	3.2	46.7	54.2	-13.8%	(7.5)
Land Grant Perm. Fund Distributions	**48.8**	**48.8**	**48.8**	**48.9**	**48.9**	**48.9**	48.7	48.7	48.7	48.7	48.7	48.7	585.5	584.9	0.1%	0.6
State Treasurer's Earnings	**1.5**	**2.3**	**(2.0)**	**(0.3)**	**(1.6)**	**0.5**	-	-	-	-	-	-	0.4	-	0.0%	0.4
Severance Tax Perm. Fund Distributions	**17.5**	**17.5**	**17.5**	**17.5**	**17.5**	**17.5**	17.5	17.5	17.5	17.5	17.5	17.5	210.4	210.4	0.0%	(0.0)
TOTAL INVESTMENT EARNINGS	**67.8**	**68.7**	**64.3**	**66.1**	**64.8**	**66.9**	66.3	66.3	66.3	66.3	66.3	66.3	796.3	795.3	0.1%	1.0
Federal Mineral Leasing Royalties	**33.0**	**33.8**	**29.4**	**66.4**	**32.2**	**36.2**	*44.2*	36.2	36.2	36.2	100.0	36.2	520.2	510.0	2.0%	10.2
State Land Office Bonuses, Rents	**14.9**	**12.1**	**13.2**	**7.7**	**15.9**	**3.0**	*15.6*	2.5	2.5	2.5	2.5	2.5	95.0	95.0	0.0%	-
TOTAL RENTS & ROYALTIES	**47.9**	**45.9**	**42.6**	**74.2**	**48.2**	**39.3**	*59.8*	38.7	38.7	38.7	102.5	38.7	615.2	605.0	1.7%	10.2
TRIBAL REVENUE SHARING	**0.1**	**0.0**	**0.1**	**15.5**	**-**	**16.1**	0.4	0.4	15.9	0.4	0.4	15.9	65.1	64.8	0.5%	0.3
MISCELLANEOUS RECEIPTS	**0.9**	**0.9**	**0.8**	**0.8**	**17.8**	**1.1**	1.0	0.9	1.0	1.1	1.1	20.4	47.8	50.7	-5.6%	(2.9)
REVERSIONS	**0.0**	**0.0**	**0.0**	**0.1**	**3.6**	**0.0**	4.0	1.2	5.2	1.8	2.5	22.6	41.0	40.0	2.6%	1.0
TOTAL RECURRING REVENUE	**451.5**	**547.3**	**501.4**	**559.6**	**556.8**	**584.0**	**402.6**	**434.0**	**489.4**	**600.7**	**595.5**	**657.1**	**6,379.9**	**6,248.6**	**2.1%**	**131.3**
Non-Recurring	**0.0**	**0.2**	**(0.1)**	**0.0**	**8.5**	**(0.1)**	-	-	-	-	-	-	8.6			
Additional Transfers	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	8.0	8.0	68.2		
TOTAL NON-RECURRING REVENUE	**0.0**	**0.2**	**(0.1)**	**0.0**	**8.5**	**(0.1)**	-	-	-	-	-	8.0	16.6	68.2		(51.6)
GRAND TOTAL REVENUE	**451.5**	**547.5**	**501.3**	**559.7**	**565.3**	**584.0**	**402.6**	**434.0**	**489.4**	**600.7**	**595.5**	**665.1**	**6,396.5**	**6,316.8**	**1.3%**	**79.7**

Estimates are developed by LFC and based on the consensus revenue estimate and historical monthly patterns; the non-recurring additional transfers amount for June includes amounts expected due to solvency legislation