State of New Mexico
LEGISLATIVE FINANCE COMMITTEE

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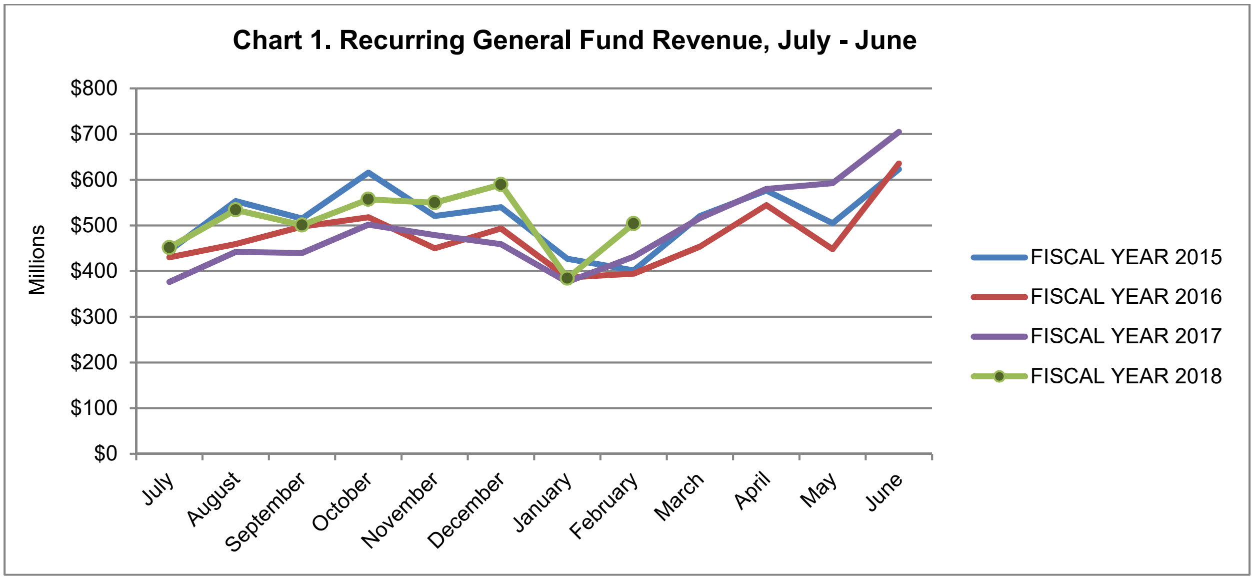
General Fund Revenue Tracking Report: Accruals through February 2018

This general fund revenue tracking report reflects revenue accruals through February 2018 as reported by the Department of Finance and Administration.

Summary. February recurring revenues were $503.8 million, up $72.4 million, or 16.8 percent, from a year ago. The strength in this month's revenues were primarily due to gross receipts tax (GRT), personal income tax (PIT) withholding, and energy revenues from oil and gas withholding, production taxes, and rents and royalties. Recurring revenue collection for FY18 through February was $4.1 billion, up $566 million, or 16.2 percent, from the same period a year ago.



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

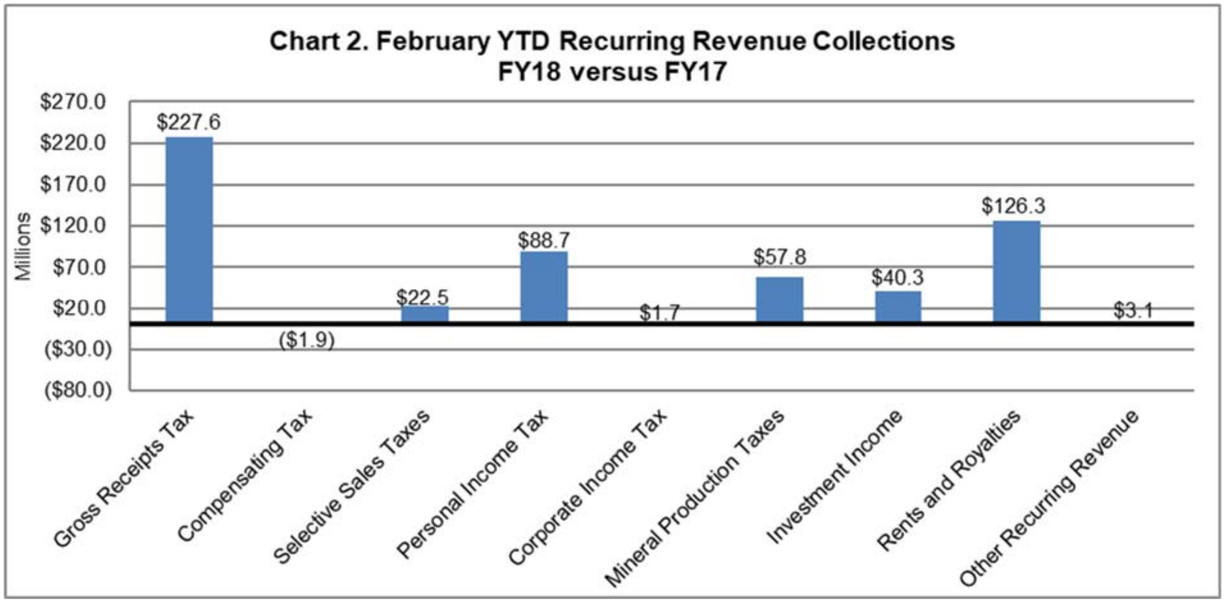
Table 1. General Fund Revenue Accruals: FY18 vs. FY17							
Revenue Category	**February Revenue**	**February Revenue**	**Fiscal Year-to-Date Through February**		**Year-over-Year Amount Change**	**Year-over-Year Growth**	**Projected Full-Year Growth: Jan. 2018 Forecast**
	FY17	**FY18**	**FY17**	**FY18**			
Gross Receipts Tax	$ 165.1	$ 190.2	$1,318.9	$1,546.5	$227.6	17.3%	6.2%
Compensating Tax	$ 5.7	$ 6.4	$34.3	$32.4	($1.9)	-5.5%	10.2%
Selective Sales Taxes *	$ 85.5	$ 92.0	$363.9	$386.4	$22.5	6.2%	5.0%
Personal Income Tax	$ 44.5	$ 59.0	$683.8	$772.5	$88.7	13.0%	0.0%
Corporate Income Tax	$ 1.0	$ 6.0	$23.5	$25.2	$1.7	7.2%	49.7%
Mineral Production Taxes *	$ 29.6	$ 30.4	$222.2	$280.0	$57.8	26.0%	14.3%
License Fees	$ 3.5	$ 4.5	$26.9	$30.5	$3.7	13.7%	1.6%
Investment Income	$ 62.6	$ 66.7	$489.5	$529.8	$40.3	8.2%	7.7%
Rents and Royalties	$ 31.7	$ 47.6	$279.6	$405.8	$126.3	45.2%	19.3%
Tribal Revenue Sharing	$ 0.0	$ 0.1	$31.9	$32.3	$0.4	1.3%	3.3%
Miscellaneous Receipts	$ 1.4	$ 0.9	$22.6	$25.1	$2.5	10.9%	2.5%
Reversions	$ 0.6	$ (0.1)	$7.7	$4.3	($3.5)	-44.9%	-47.7%
Subtotal Recurring Rev.	**$ 431.4**	**$ 503.8**	**$3,504.8**	**$4,070.8**	**$566.0**	**16.2%**	**6.2%**
Nonrecurring Revenue	$ 30.7	$ 0.4	$181.0	$43.6	($137.4)	-75.9%	-88.2%
Total Revenue	**$ 462.2**	**$ 504.2**	**$3,752.8**	**$4,114.4**	**$361.6**	**9.6%**	**-2.2%**

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

Mineral production taxes from the oil and gas industry are up $57.8 million, or 26 percent, through February from this time last year. Rents and royalties from the oil and gas industry are up $126.3 million above last year. Combined, these energy revenue sources are up over $184 million fiscal year-to-date, or 36.7 percent. The growth in these revenues is due entirely to the state's surge in oil production, in which per-day production is up almost 25 percent year-over-year. Additionally, natural gas production is up over 8 percent due to increases in associated gas from southeast oil. The substantial growth in production combined with the rise in oil prices resulted in the value of oil produced in New Mexico increasing over 140 percent fiscal year-to-date from the same period a year ago.

Personal income tax (PIT) revenues in February were up $14.5 million from a year ago. The primary contributor to this increase was the withholding of oil and gas payments to interest owners based on product value. Increases in this revenue source are expected with the surge of production in New Mexico this fiscal year and the recovery of oil prices. PIT withholding for income taxes was up $10 million from February last year but was almost entirely offset by an increase in refunds this month.

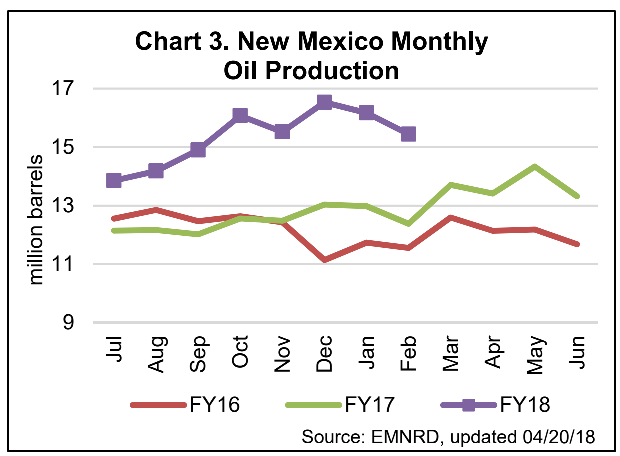
Gross receipts tax (GRT) revenues in February were up $25.1 million compared with the same month a year ago. GRT revenues so far this fiscal year are up 17.3 percent, or $227.6 million, with nearly three-quarters of the growth driven by the mining, construction, retail, and wholesale trade industries. The vast majority of this growth is related directly and indirectly to the oil and gas industry. GRT revenues are tracking about 6.3 percent above the consensus forecast, largely due to the energy boom but also due to the revenue risks accounted for in the January forecast that had potential to hit later in the fiscal year and now appear more likely to impact FY19 or later. These risks include high levels of tax refund claim protests that continue to threaten GRT revenues.



Revenue Tracking. The last page provides the general fund revenue tracking chart for FY18. The chart 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.

Driven by continued strength in energy and GRT revenues, recurring revenues are now tracking at $187.6 million, or 3 percent, above the January consensus estimate of $6.2 billion. Strength in GRT revenues above the estimate was expected, as forecasters considered some revenue risks in the estimate that have potential to occur later in the fiscal year. However, the size of this increase is also significantly driven by the unexpected surge in oil production. While the consensus forecast expected about 9.5 percent growth in oil production for FY18, year-to-date production surged 23 percent from the same period last year. In turn, the production boom is resulting in substantial strength in revenues from GRT, oil and gas withholding, mineral production taxes, and rents and royalties.

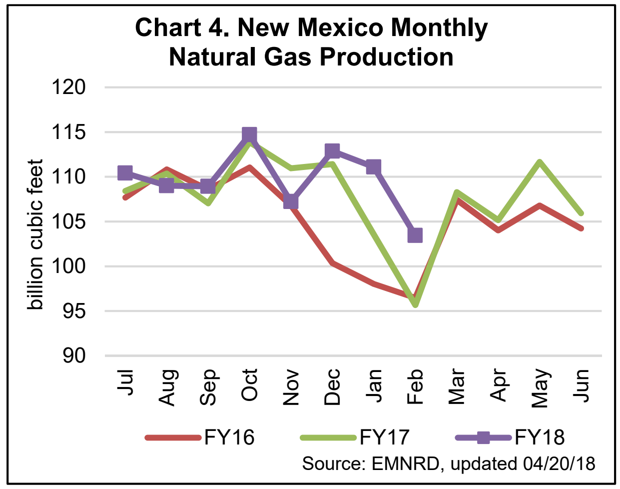
Oil and Gas. Charts 3 and 4 present the oil and gas production data reported by the Energy, Minerals and Natural Resources Department's Oil Conservation Division (OCD). Reporting by producers is due 45 days after the production month.



New Mexico had 86 active drilling rigs in February, up from 48 active rigs a year ago, and preliminary data from OCD shows the state produced 15.5 million barrels of oil that month, up from 12.4 million barrels last February. New Mexico is now producing 554.8 thousand barrels per day, up from an average of 423.6 thousand in FY17.

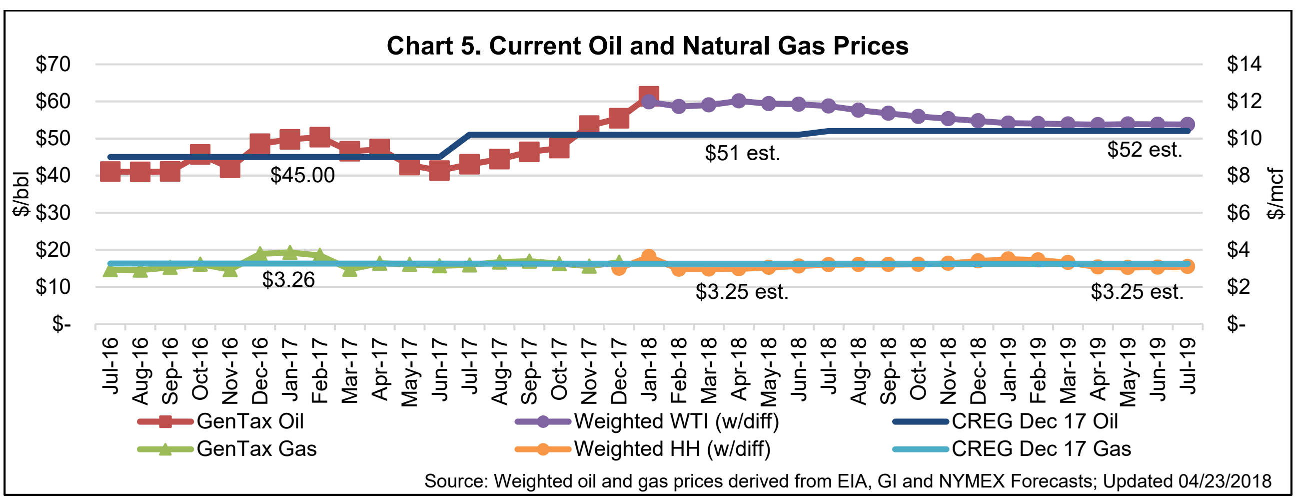
Along with oil production increases, New Mexico's natural gas production for FY18 through February is up about 2 percent, or 16.3 billion cubic feet, from the same period a year ago. This is largely due to a rise in associated gas produced from oil wells in the southeast, which increased 42 percent from last fiscal year-to-date and now accounts for 40 percent of all gas production in New Mexico. Natural gas production from northwest gas wells declined about 4 percent fiscal year-to-date and now accounts for about 42 percent of the state's total gas production (down from over 60 percent in FY13).

In addition to high production, average New Mexico oil prices are tracking up about $4 above the consensus forecast for FY18 at about $54 per barrel. The average West Texas Intermediate (WTI) oil price in February was $62.23, down from $63.70 in January. The most recent GenTax data shows New Mexico oil at $61.36 in January, up from $55.46 in December. The average price differential between New Mexico oil prices and WTI prices this fiscal year is now -$3.35/bbl. While the price differential between WTI and New Mexico oil prices has been narrowing the last few months, recent backlogs in natural gas pipeline capacity for associated gas from oil wells in the Permian basin may cause increases in the price differential in future months.



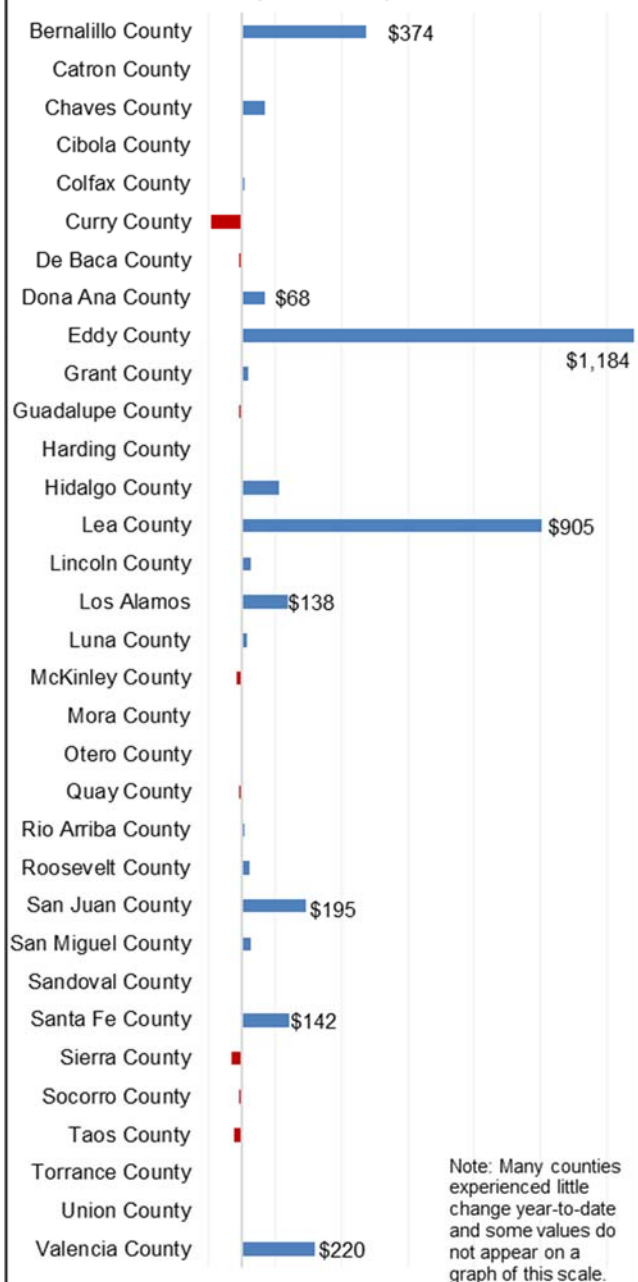
Natural gas prices for FY18 are tracking at $3.19/mcf, compared with the consensus forecast of $3.25. New Mexico natural gas prices are averaging 18 cents above Henry Hub prices so far this fiscal year. The Henry Hub gas price in February was $2.66, down from $3.69 in January. Despite the decline in prices, New Mexico's per day natural gas production rose in February to 3.7 billion cubic feet, up about 4 percent from January.

Mineral production tax revenues are up 26 percent year-over-year and are currently tracking about $23 million above the forecast. Notably, if oil and natural gas production continues at these high rates, mineral production tax revenues to the general fund could exceed the revenue forecast by more than $90 million by the end of FY18.



Moreover, high production levels are generating increased federal mineral leasing payments (FML), which are a function of production value. FML payments are up $73.7 million fiscal year-to-date, compared with the same period a year ago. The Bureau of Land Management also indicated it expects New Mexico to receive its payments for the September and December bonus sales in May. These sales are currently under protest, which held up payment to the state. The consensus forecast assumed only the $64 million payment for the September sale would hit the general fund in FY18 and the $15 million payment for the December sale would be received in FY19. However, if both payments are received in May, this along with increased production values would put FML revenues on track to beat the forecast by $60 million.

Chart 6. Matched Taxable Gross Receipts by County, Year-over-Year Amount, July 2017 - February 2018 (in millions)



<u>**Gross Receipts.**</u> Underlying economic activity showed continued strength in February, with matched taxable gross receipts (MTGR) up 13.1 percent fiscal year-to-date. MTGR reconciles tax returns against payments to account for total revenues generated by business activity within a given month. MTGR growth rates can differ from GRT revenue growth rates due to various factors, including credits and 60-day money impacts that can grow or shrink completely apart from the underlying economic growth. For example, the 2016 special session changes to the high-wage jobs tax credit had a direct and significant reduction on credits affecting revenues. Additionally, the phase-out of hold harmless payments to local governments has the effect of driving revenue growth without any impact on MTGR growth. Through February, MTGR growth is trailing GRT revenue growth by 4.2 percent.

For the second straight month, all industries shown below in Table 2 improved fiscal year-to-date. However, Chart 6 indicates few counties experienced any notable growth in the last year. Of the handful of counties that have experienced sizeable growth, it is limited to certain industries. For example, the growth in Santa Fe and Valencia counties is due almost entirely to construction, notably the Facebook construction project in Los Lunas and hospitals and roads projects in Santa Fe. Virtually all of the growth in Los Alamos County's gross receipts are supported by the activity of the national lab. Doña Ana County, which experienced a significant decline in construction, is growing almost entirely due to the healthcare and social assistance industry. And the growth in San Juan County, while more broad-based, is largely due to the energy rebound in ways similar to Eddy and Lea counties.

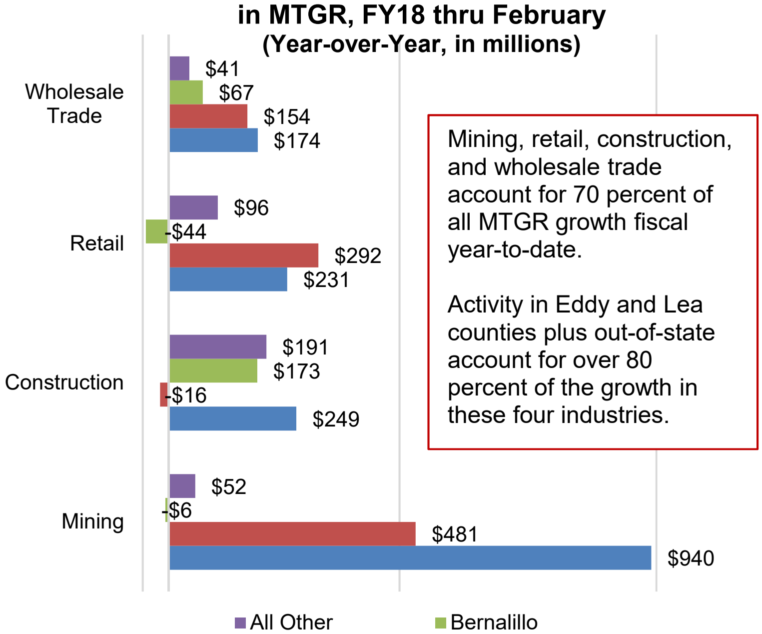
About 70 percent of all MTGR growth is attributable to mining, construction, retail, and wholesale trade. MTGR in the mining industry is up 105 percent, or $1.5 billion, so far this fiscal year, becoming the single largest contributor to the state's growth in gross receipts and now the fifth largest industry in the state (versus the eighth largest in FY16). Construction grew by 14.6 percent, retail grew by 7.1 percent, and wholesale trade grew by 35.5 percent. Combined, these three industries' economic activity grew over $1.1 billion from the same period last year.

Table 2. Matched Taxable Gross Receipts by Industry July 2017 - February 2018			
Industry	**Matched Taxable Gross Receipts**	**Year-over-Year Growth**	**Year-over-Year Change**
Mining, Quarrying, and Oil and Gas Extraction	$2,860,777,309	$1,465,406,679	105.0%
Utilities	$1,682,231,790	$48,000,353	2.9%
Construction	$4,717,441,023	$600,752,613	14.6%
Manufacturing	$1,020,498,657	$110,289,872	12.1%
Wholesale Trade	$1,661,897,702	$435,186,721	35.5%
Retail Trade	$8,578,913,389	$571,550,486	7.1%
Transportation and Warehousing	$508,640,347	$120,649,527	31.1%
Information	$1,689,013,959	$10,944,295	0.7%
Real Estate and Rental and Leasing	$931,194,155	$162,484,886	21.1%
Professional, Scientific, and Technical Services	$4,150,185,741	$136,571,574	3.4%
Administrative/Support & Waste Management/Remediation	$815,134,348	$38,613,364	5.0%
Health Care and Social Assistance	$1,974,860,666	$175,718,271	9.8%
Leisure and Hospitality Services	$3,021,397,232	$141,279,221	4.9%
Other Industries	$3,896,773,022	$340,619,063	n/a
Total	**$37,508,959,340**	**$4,358,066,925**	**13.1%**

Source: RP500

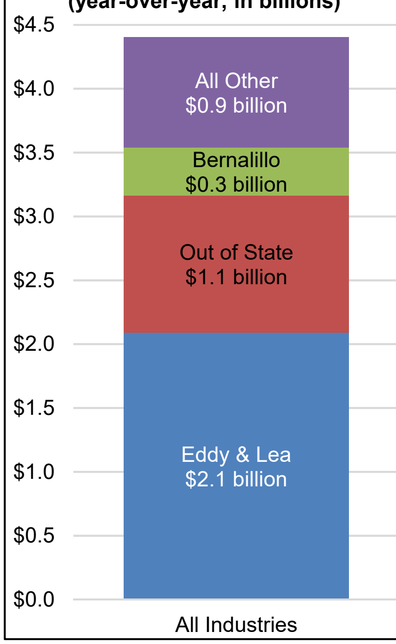
Strength in oil and gas production is driving a significant majority of the growth in GRT revenues. As shown in charts 7 and 8 below, nearly half ($2.1 billion) of the $4.4 billion growth in MTGR so far this fiscal year was generated in Eddy and Lea counties alone, and about 25 percent was generated from out-of-state (which primarily supports the oil and gas industry but also includes Amazon direct sales). In the four industries generating the most MTGR growth, over 80 percent was attributable to Eddy, Lea, and out-of-state, giving a clear indication that the recent growth in GRT revenues is overwhelmingly driving by the rebound in the energy sector.

Chart 7. Top Four Industries With Most Growth in MTGR, FY18 thru February (Year-over-Year, in millions)

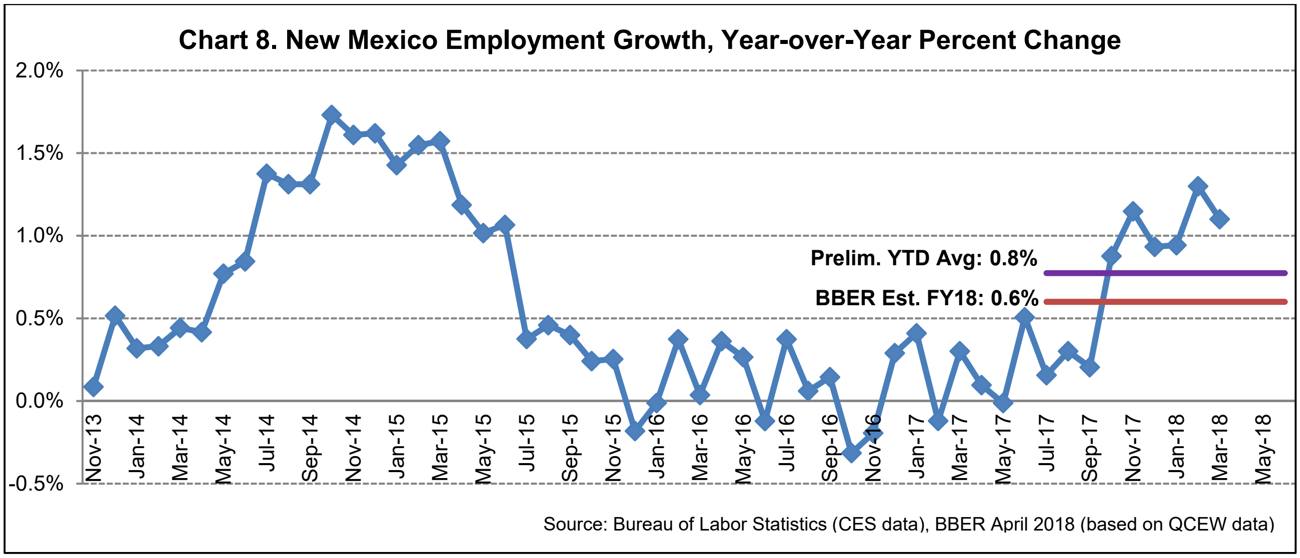


Source: RP500

Chart 8. MTGR Growth FY18 thru February (year-over-year, in billions)



Employment Trends. Chart 6 below reflects New Mexico year-over-year employment growth, with data from the current employment statistics (CES) survey data. The state's employment growth was 1.1 percent year-over-year in March, down slightly from February, according to data from the U.S. Bureau of Labor Statistics. The unemployment rate was 5.6 percent, keeping New Mexico at the second highest unemployment rate of any state, behind Alaska. However, while job growth was lower than that of any other state in the region, New Mexico fared better nationally, ranking a mid-level 28th for annual job gains.



Based on CES preliminary data for March, the Workforce Solutions Department (WSD) reports New Mexico notably had no year-over-year job growth in the mining industry, significantly at odds with the MTGR increase. However, 12 of the 18 industry sectors and subsectors tracked by WSD showed gains; construction jobs rose by 6.8 percent, manufacturing by 4.7 percent, and transportation and warehousing by 4.1 percent. The only industries with losses were information with an 8.1 percent decline, retail with a 1.2 percent decline, and the health care-related sectors with less than a 1 percent decline each.

The increase in the manufacturing industry is particularly notable. Using a three-month moving average to smooth out monthly fluctuations, New Mexico had 62 consecutive months of year-over-year declines in employment in this industry through October 2017. However, starting in November, the state had five consecutive months of job gains. It appears this is likely related to the energy boom, but ongoing research and analysis might provide additional insights.

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		
	July Actual	Aug Actual	Sept Actual	Oct Actual	Nov Actual	Dec Actual	Jan Actual	Feb Actual	Mar Est.	Apr Est.	May Est.	June Est.	Actual + Estimate	FY18 Jan. Forecast	% Diff.	$ Diff.
Gross Receipts Tax	189.5	195.6	182.7	188.5	209.8	195.4	194.9	190.2	168.8	181.6	170.5	204.1	2,271.5	2,137.9	6.3%	133.6
Compensating Tax	4.5	4.9	6.7	5.6	(8.5)	6.6	6.1	6.4	4.8	4.2	4.2	5.2	50.7	53.5	-5.2%	(2.8)
TOTAL GENERAL SALES TAXES	194.0	200.5	189.4	194.1	201.3	202.0	201.0	196.7	173.6	185.8	174.7	209.4	2,322.3	2,191.4	6.0%	130.9
Tobacco Products & Cigarette Taxes	7.5	7.4	6.2	6.3	5.6	6.1	5.1	8.9	6.5	6.6	6.3	8.4	80.9	79.4	1.9%	1.5
Liquor Excise Tax	1.1	2.2	1.9	2.2	2.2	2.3	1.6	1.7	1.9	1.9	1.9	2.4	23.3	23.5	-0.8%	(0.2)
Insurance Premiums Tax	0.4	53.2	0.3	0.5	54.6	0.8	0.2	63.4	0.7	0.7	55.1	0.7	230.6	232.4	-0.8%	(1.8)
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	12.6	11.1	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	4.8	5.0	5.0	5.0	5.0	5.0	59.6	59.6	0.0%	(0.0)
Leased Vehicle Surcharge & Other	0.6	1.5	0.1	0.7	0.3	0.4	1.0	1.8	0.6	0.6	0.7	0.7	9.0	7.6	18.0%	1.4
TOTAL SELECTIVE SALES TAXES	27.3	83.5	26.5	26.6	78.8	26.5	25.2	92.0	28.6	28.4	82.8	49.0	575.1	570.6	0.8%	4.5
Withholding	94.5	95.5	107.6	91.1	98.7	148.2	97.0	103.5	112.7	99.5	101.1	109.9	1,259.4	1,265.3	-0.5%	(5.9)
Final Settlements	-	12.1	47.0	24.6	9.7	60.8	32.2	13.9	36.2	148.8	26.2	64.9	476.3	469.7	1.4%	6.6
Oil and Gas Withholding Tax	-	0.4	3.8	12.0	3.3	1.8	*8.9*	15.9	5.0	6.0	5.1	13.5	75.8	60.5	25.2%	15.3
Fiduciary Tax	(0.7)	0.7	(1.1)	(0.1)	1.6	1.5	0.1	0.3	3.0	0.2	1.6	(0.1)	7.0	6.1	15.3%	0.9
Gross Personal Income Tax	93.8	108.7	157.3	127.6	113.3	212.3	138.2	133.7	156.9	254.4	134.0	188.1	1,818.5	1,801.5	0.9%	17.0
Transfer to PIT Suspense	(8.6)	(7.8)	(11.7)	(9.4)	(8.5)	(11.1)	(165.3)	(72.6)	(46.7)	(19.6)	(12.9)	(8.4)	(382.6)	(393.4)	-2.7%	10.8
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)	(26.7)	(27.1)	-1.4%	0.4
Less: Refunds, distributions to other funds	(10.8)	(10.0)	(13.8)	(11.6)	(10.7)	(13.3)	(167.5)	(74.7)	(48.9)	(21.8)	(15.1)	(10.9)	(409.3)	(420.4)	-2.7%	11.2
NET PERSONAL INCOME TAX	83.0	98.7	143.5	116.0	102.5	199.1	(29.2)	59.0	108.0	232.6	118.9	177.2	1,409.2	1,381.1	2.0%	28.1
CORPORATE INCOME TAX	-	3.8	0.5	25.3	(8.5)	(11.0)	9.1	6.0	13.8	8.1	9.3	24.4	81.0	105.0	-22.9%	(24.0)
TOTAL INCOME TAXES	83.0	102.5	144.0	141.3	94.0	188.1	(20.1)	65.0	121.9	240.7	128.2	201.7	1,490.2	1,486.1	0.3%	4.1
Oil and Gas School Tax	25.2	26.6	27.7	31.4	35.3	35.5	45.1	28.0	31.7	31.3	30.5	27.0	375.2	352.7	6.4%	22.5
Oil Conservation Tax	1.3	1.4	1.4	1.6	1.8	1.8	2.2	1.5	1.7	1.6	1.8	1.4	19.5	18.3	6.7%	1.2
Resources Excise Tax	0.7	0.8	0.7	0.7	0.9	0.7	0.7	0.3	0.8	0.7	0.7	0.8	8.6	9.3	-7.0%	(0.7)
Natural Gas Processors Tax	1.0	0.8	0.9	0.9	0.8	0.8	0.8	0.6	0.9	0.8	0.9	0.8	10.1	10.2	-1.1%	(0.1)
TOTAL MINERAL PROD. TAXES	28.3	29.5	30.8	34.6	38.8	38.8	48.8	30.4	35.1	34.5	33.9	30.0	413.5	390.5	5.9%	23.0
LICENSE FEES	2.3	2.5	2.2	3.9	2.4	10.7	2.0	4.5	3.2	3.0	3.3	3.2	43.2	54.2	-20.3%	(11.0)
Land Grant Perm. Fund Distributions	48.8	48.8	48.8	48.9	48.9	48.9	48.9	48.9	48.7	48.7	48.7	48.7	585.8	584.9	0.2%	0.9
State Treasurer's Earnings	1.5	2.3	(2.0)	(0.3)	(1.6)	0.5	(2.0)	0.3	-	-	-	-	(1.3)	-	0.0%	(1.3)
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	64.4	66.7	66.3	66.3	66.3	66.3	794.9	795.3	-0.1%	(0.4)
Federal Mineral Leasing Royalties	33.0	33.8	29.4	66.4	32.2	36.2	44.6	39.2	*43.1*	36.2	115.0	36.2	545.5	510.0	7.0%	35.5
State Land Office Bonuses, Rents	14.9	12.1	13.2	7.7	15.9	3.0	15.6	8.4	*3.4*	2.5	2.5	2.5	101.7	95.0	7.1%	6.7
TOTAL RENTS & ROYALTIES	47.9	45.9	42.6	74.2	48.2	39.3	60.2	47.6	46.5	38.7	117.5	38.7	647.3	605.0	7.0%	42.3
TRIBAL REVENUE SHARING	0.1	0.0	0.1	15.5	-	16.1	0.4	0.1	15.9	0.4	0.4	15.9	64.8	64.8	0.0%	(0.0)
MISCELLANEOUS RECEIPTS	0.9	0.9	0.8	0.8	17.8	1.1	1.9	0.9	1.0	1.1	1.1	20.4	48.7	50.7	-4.0%	(2.0)
REVERSIONS	0.0	0.0	0.0	0.1	3.6	0.0	0.6	(0.1)	5.2	1.8	2.5	22.6	36.3	40.0	-9.2%	(3.7)
TOTAL RECURRING REVENUE	451.5	534.0	500.8	557.2	549.8	589.5	384.3	503.8	497.2	600.7	610.5	657.1	6,436.2	6,248.6	3.0%	187.6
Non-Recurring	0.0	13.5	0.5	2.5	15.5	11.2	0.0	0.4	-	-	-	-	43.6			
Additional Transfers	-	-	-	-	-	-	-	-	-	-	-	8.0	8.0	68.2		
TOTAL NON-RECURRING REVENUE	0.0	13.5	0.5	2.5	15.5	11.2	0.0	0.4	-	-	-	8.0	51.6	68.2		(16.6)
GRAND TOTAL REVENUE	451.5	547.5	501.3	559.7	565.3	600.6	384.3	504.2	497.2	600.7	610.5	665.1	6,487.8	6,316.8	2.7%	171.0

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