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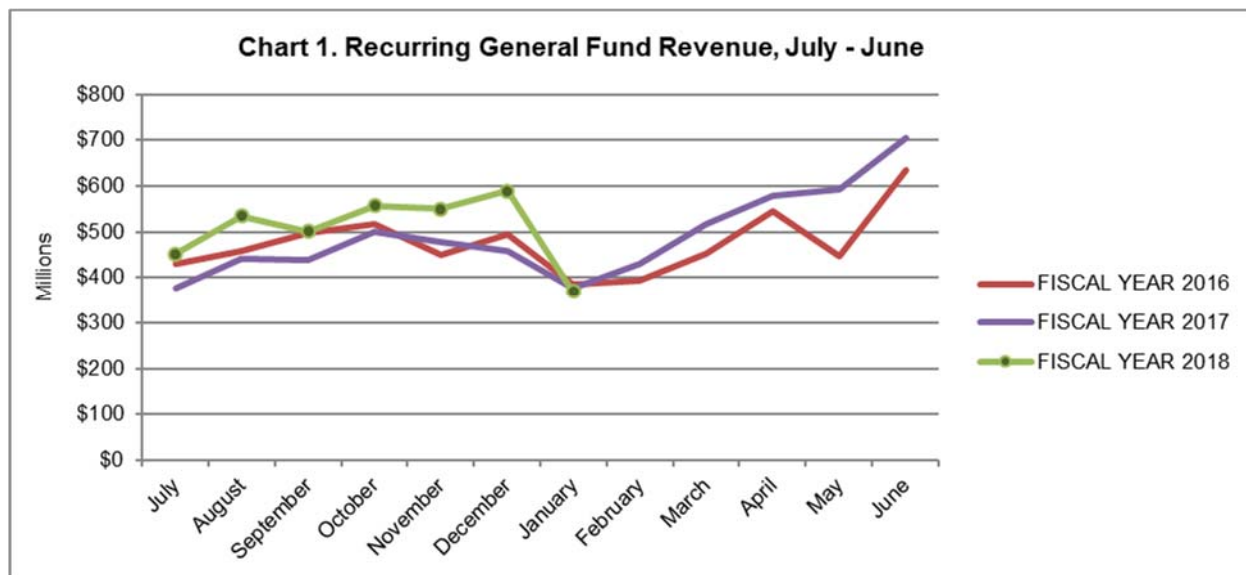


March 23, 2018

General Fund Revenue Tracking Report: Accruals through January 2018

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

Summary. January recurring revenues were \$369.2 million, down \$6.8 million, or 1.8 percent, from a year ago. This was expected, since last month LFC staff reported anomalies in personal income tax revenues that appear to have largely corrected this month. Recurring revenue collection for FY18 through January was \$3.6 billion, up \$478.5 million, or 15.6 percent, from the same period a year ago.



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

Table 1. General Fund Revenue Accruals: FY18 vs. FY17

Revenue Category	January Revenue	January Revenue	Fiscal Year-to-Date Through January		Year-over-Year Amount Change	Year-over-Year Growth	Projected Full-Year Growth: Jan. 2018 Forecast
	FY17	FY18	FY17	FY18			
Gross Receipts Tax	\$ 163.2	\$ 194.9	\$1,153.7	\$1,356.3	\$202.5	17.6%	6.2%
Compensating Tax	\$ 4.2	\$ 6.1	\$28.5	\$25.9	(\$2.6)	-9.0%	10.2%
Selective Sales Taxes *	\$ 22.8	\$ 25.7	\$278.4	\$294.9	\$16.5	5.9%	5.0%
Personal Income Tax	\$ 35.0	\$ (29.2)	\$639.3	\$713.5	\$74.2	11.6%	0.0%
Corporate Income Tax	\$ 18.3	\$ 9.1	\$22.5	\$19.2	(\$3.3)	-14.5%	49.7%
Mineral Production Taxes *	\$ 33.4	\$ 33.2	\$192.6	\$234.0	\$41.4	21.5%	14.3%
License Fees	\$ 2.6	\$ 2.0	\$23.4	\$26.0	\$2.6	11.3%	1.6%
Investment Income	\$ 62.7	\$ 64.4	\$426.9	\$463.0	\$36.2	8.5%	7.7%
Rents and Royalties	\$ 31.9	\$ 60.2	\$247.9	\$358.2	\$110.3	44.5%	19.3%
Tribal Revenue Sharing	\$ 0.9	\$ 0.4	\$31.8	\$32.2	\$0.4	1.2%	3.3%
Miscellaneous Receipts	\$ 1.0	\$ 1.9	\$21.2	\$24.2	\$3.0	14.0%	2.5%
Reversions	\$ (0.0)	\$ 0.6	\$7.1	\$4.3	(\$2.8)	-38.9%	-47.7%
Subtotal Recurring Rev.	\$ 376.0	\$ 369.2	\$3,073.3	\$3,551.8	\$478.5	15.6%	6.2%
Nonrecurring Revenue	\$ 28.0	\$ 0.0	\$140.2	\$43.2	(\$97.0)	-69.2%	-88.2%
Total Revenue	\$ 404.0	\$ 369.2	\$3,249.8	\$3,595.1	\$345.3	10.6%	-2.2%

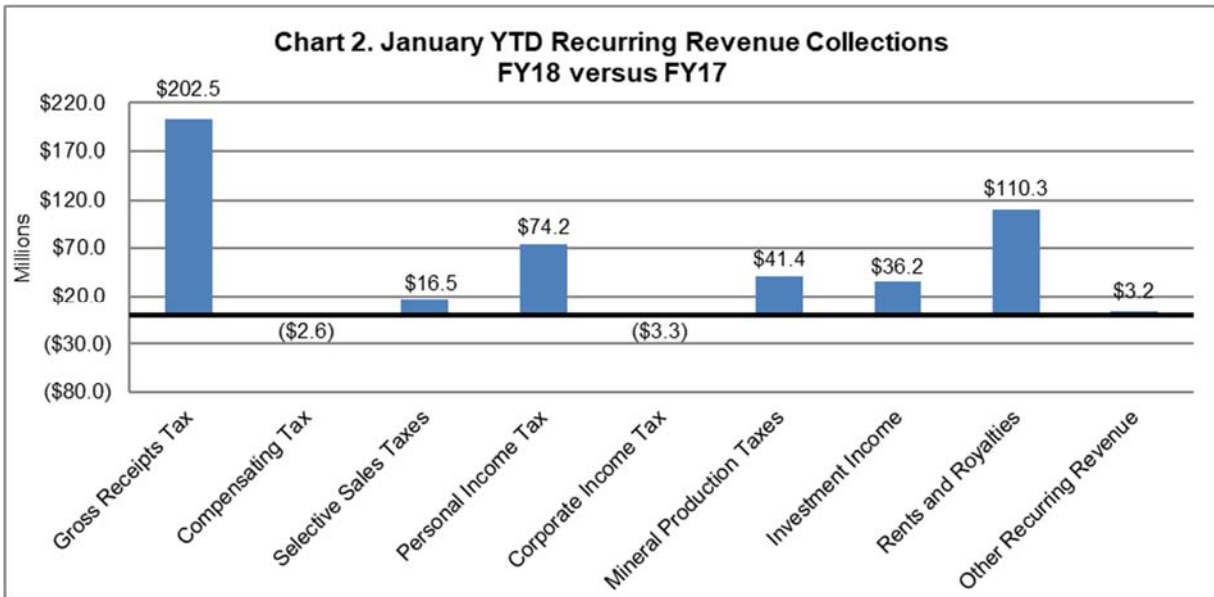
*Includes estimates for Insurance, Oil and Gas School Tax, and Oil Conservation Tax

Last month, the revenue tracking report indicated personal income tax (PIT) revenues for December were up \$116.3 million from a year ago, putting the PIT revenue estimates well ahead of the consensus forecast. However, the report noted this was due to an unusually small amount for PIT refunds that month, which totaled just \$11 million compared with more than \$70 million in December 2017 and December 2016. LFC economists expected the December low refund amount to be offset by a particularly large refund amount in a future month. It appears this has happened for January, with refunds for this month totaling \$165.3 million, well above the \$111 million anticipated.

The Taxation and Revenue Department (TRD) informed LFC and Department of Finance and Administration economists there was a glitch in one or more software programs taxpayers use to file their annual PIT returns. The glitch resulted in incomplete returns submitted to TRD, which caused about a one-week delay in the agency's ability to process refund claims. This explains the unusually low December refund amount and the subsequently large January refund total. PIT revenues fiscal-year-to-date are now tracking \$74.2 million, or 11.6 percent, over the same period a year ago. Strength in oil and gas withholding payments and less-than-expected refund claims are leading to overall PIT revenue gains compared with the forecast, although weakness in withholding payments is partially offsetting this strength.

Gross receipts tax (GRT) revenues continue to rise, although mostly in line with expectations. Revenues in January were up \$32 million compared with the same month a year ago; however, about \$20 million of the increase is due to 60-day money and other credits, and TRD is researching the issue. Setting aside this impact, January GRT revenue was very close to LFC projections based on the forecast. GRT revenue fiscal-year-to-date was up \$203 million, or 17.6 percent. This significantly exceeds the forecast for 6.2 percent growth for the entire fiscal year. However, the consensus revenue estimating group, as noted in the forecast brief and presentations, accounted for some of the known revenue risks; therefore, it is expected that GRT revenues would track above the forecast until

one or more risks comes to fruition and negatively impacts the revenues. For example, high levels of tax refund claim protests continue to threaten GRT revenues.



Corporate income tax (CIT) revenues through January are down \$3.3 million from the same period a year ago; however, revenues are tracking \$24 million below the consensus forecast. This highly volatile revenue source generated just \$70 million in FY17, about a quarter of historical averages. The consensus estimates anticipated growth in CIT revenues in FY18 due to national macroeconomic forecasts predicting a rebound in corporate profits. Although corporate profits recovered in 2017 from their downturn in 2016, the state’s CIT revenues have yet to catch up.

Mineral production taxes from the oil and gas industry were up \$41.4 million year-to-date, or 21.5 percent, from this time last year. Rents and royalties from the oil and gas industry are up \$110.3 million above last year. Combined, these energy revenue sources are up over \$150 million year-to-date, or 34.4 percent. The substantial growth in energy revenues remains almost entirely due to increased oil prices and growth in oil production.

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. Due to continued revenue strength in GRT, recurring revenues are now tracking at about \$107.6 million, or 1.7 percent, above the January estimate of \$6.2 billion. As previously indicated, 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 in January, but year-over-year gains were slightly moderated. Matched taxable gross receipts (MTGR) was up 11.6 percent fiscal-year-to-date versus 12.4 percent a month ago. MTGR reconciles tax returns against payments to account for total revenues generated by business activity within a given month. Every industry shown below in Table 2 improved over the fiscal year

through January for the first time in FY18. The mining, oil, and gas industry grew by 80 percent, and it provides significant direct and indirect effects on other industries that often provide supporting services for oil and gas production, assisting the gains in other industries. Wholesale trade grew by 34 percent, transportation and warehousing grew by 28 percent, and real estate grew by 20 percent. The construction and manufacturing industries each grew by 15 percent.

MTGR for mining in San Juan county showed a \$260 million loss for prior periods from one or more amended returns. This also led to TRD’s RP-500 report showing a loss in total tax revenues owed of about \$16.6 million. TRD is researching the issue but preliminarily noted a taxpayer filed a refund claim that was denied by the department but appeared in the RP-500 due to timing issues related to the claim and the denial. This appears to also involve an impact in 60-day money and other credits, which was significantly high in January. Although TRD is not yet able to confirm, the refund claim might be related to the chemicals and reagents GRT deduction, which was responsible for a reported \$165 million in accumulated tax refund protests by the end of the 2018 legislative session. Additional reporting from TRD and industry representatives is needed to fully understand the issues related to the deduction and enable recommendations to solve this growing risk to the general fund.

Table 2. Matched Taxable Gross Receipts by Industry July 2017 - January 2018

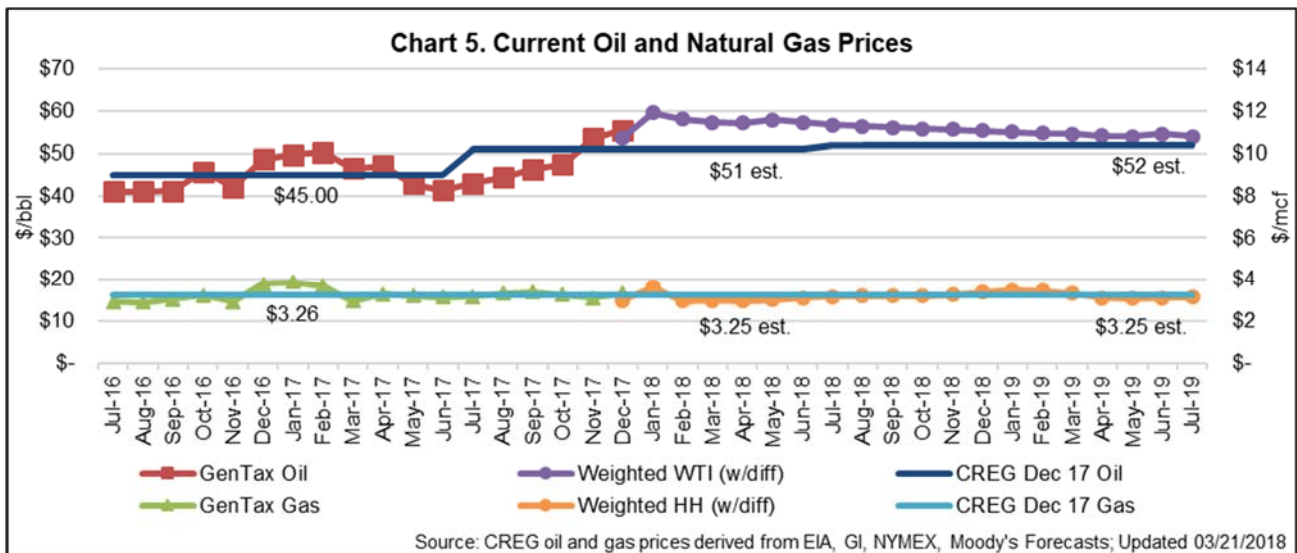
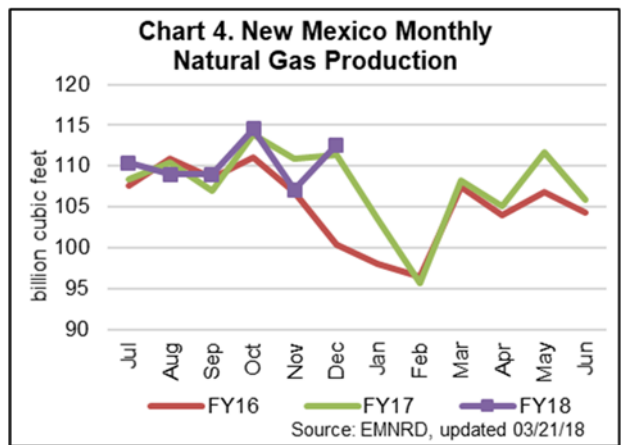
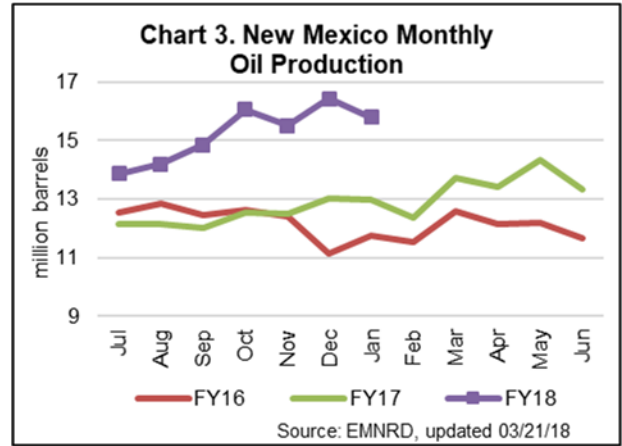
Industry	Matched Taxable Gross Receipts	Year-over-Year Change
Mining, Quarrying, and Oil and Gas Extraction	\$2,193,497,619	79.8%
Utilities	\$1,477,426,995	4.0%
Construction	\$4,203,415,375	14.6%
Manufacturing	\$905,340,061	14.8%
Wholesale Trade	\$1,443,801,373	33.6%
Retail Trade	\$7,605,390,120	6.8%
Transportation and Warehousing	\$439,474,592	27.8%
Information	\$1,491,050,692	0.8%
Real Estate and Rental and Leasing	\$821,251,480	19.5%
Professional, Scientific, and Technical Services	\$3,646,863,013	2.2%
Administrative/Support & Waste Management/Remediation	\$720,825,219	2.1%
Health Care and Social Assistance	\$1,737,915,488	9.5%
Leisure and Hospitality Services	\$2,665,833,118	4.4%
Other Industries	\$3,408,154,719	n/a
Total	\$32,760,239,863	11.6%

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. December oil production data was revised up to 16.4 million barrels from the 15.7 million previously reported. Oil production reported for January was 15.8 million barrels, up 21.6 percent from 13 million barrels in January 2017. Oil production fiscal-year-to-date is tracking well above that of a year ago, up 22 percent, or about 19.2 million barrels. The state had 81 active drilling rigs in January, and Baker-Hughes shows New Mexico’s active rigs rose to 86 in February 2018, indicating potential for even greater reported oil production in February.

Natural gas production data from OCD for January is incomplete, likely due to late reporting by a large producer. December natural gas production was 112.6 billion cubic feet, up 1.2 billion cubic feet, or 1.1 percent, from December 2016. As illustrated in Chart 4, natural gas production fiscal-year-to-date is up 0.1 percent, or 0.5 billion cubic feet, compared with the same period a year ago.

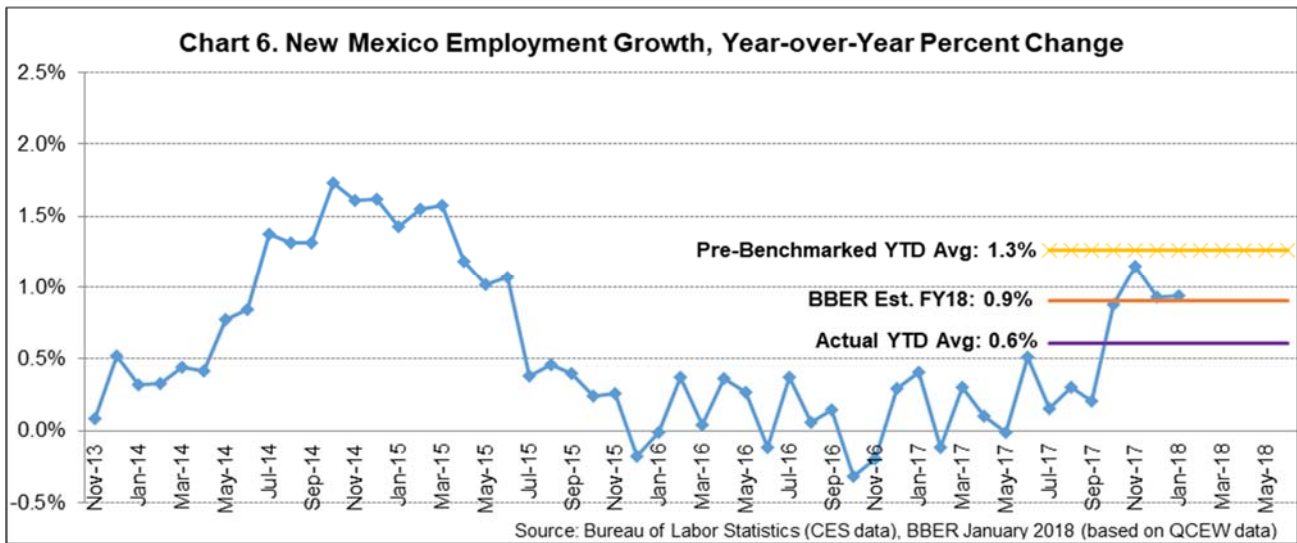
In March 2018, TRD made the changeover in reporting severance tax data from the ONGARD system to the GenTax system. While the changeover to GenTax was relatively smooth, natural gas volumes data reported in GenTax appear unusually large from July 2017 forward, exceeding both OCD data and previously reported ONGARD data. LFC economists are following up with TRD to look into the issue and determine if GenTax reported volumes for natural gas need revisions and the extent to which the issue might be affecting collected and distributed severance tax revenues.

Average weighted West Texas Intermediate (WTI) prices are tracking slightly above the consensus forecast for FY18. Combined with current GenTax data for New Mexico oil prices through November, the state's FY18 oil price is tracking at about \$52.99, compared with the consensus forecast of \$51. The average WTI oil price in January increased to \$63.70, up from \$57.88 in December. The rising oil prices were largely supported by declines in U.S. crude oil inventories, increased estimates of global oil demand, and geopolitical tensions that could cause supply reductions. The most recent GenTax data show New Mexico oil was priced at \$55.46 in December, up from \$53.47 in November. The average price differential between New Mexico oil prices and WTI prices this fiscal year is now -\$3.55/bbl.



Natural gas prices for FY18 are tracking at \$3.16/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 most recent ONGARD data show New Mexico natural gas prices were \$3.32 in December, up from \$3.12 in November. The Henry Hub gas price in December was \$2.82.

Employment Trends. Chart 6 below reflects New Mexico year-over-year employment growth, with data from the current employment statistics (CES) survey data now benchmarked to the more reliable quarterly census of employment and wages (QCEW) data. LFC economists, in conjunction with the BBER economic forecast, relayed concerns that prior CES data may have overestimated recent employment figures. As reported last month, CES data indicated 1.3 percent growth in employment in FY18 through December; however, the employment figures were higher than the lagged QCEW data by nearly a percentage point. In March 2018, the benchmarked CES data was released, indicating that total nonfarm employment growth in New Mexico for FY18 year-to-date is actually 0.6 percent. The Workforce Solutions Department reports total nonfarm job estimates for 2017 were revised down by 9,000 jobs, total private employment was revised down by 6,200 jobs, and government employment was revised down by 2,700 jobs.



Based on CES preliminary data for January, the Workforce Solutions Department reports New Mexico added 7,000 nonagricultural jobs from a year ago, with gains coming from the private sector. The construction industry grew the most, adding 4,100 jobs, or 9.6 percent. Leisure and hospitality added 1,300 jobs, or 1.4 percent; professional services added 1,200 jobs, or 1.2 percent; and financial activities added 1,100 jobs, or 3.3 percent. Health care employment growth has slowed dramatically, falling from the fastest growing industry in the state during much of 2016 to less than 1 percent growth by January 2018. The information industry lost 1,800 jobs, or 14 percent, over the year, and retail trade lost 1,600 jobs, or 1.7 percent.

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 Actual	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	194.9	162.8	168.8	181.6	170.5	204.1	2,244.1	2,137.9	5.0%	106.2
Compensating Tax	4.5	4.9	6.7	5.6	(8.5)	6.6	6.1	4.0	4.8	4.2	4.2	5.2	48.3	53.5	-9.7%	(5.2)
TOTAL GENERAL SALES TAXES	194.0	200.5	189.4	194.1	201.3	202.0	201.0	166.8	173.6	185.8	174.7	209.4	2,292.4	2,191.4	4.6%	101.0
Tobacco Products & Cigarette Taxes	7.5	7.4	6.2	6.3	5.6	6.1	5.1	6.3	6.5	6.6	6.3	8.4	78.3	79.4	-1.4%	(1.1)
Liquor Excise Tax	1.1	2.2	1.9	2.2	2.2	2.3	1.6	1.6	1.9	1.9	1.9	2.4	23.2	23.5	-1.1%	(0.3)
Insurance Premiums Tax	0.4	53.2	0.3	0.5	54.6	0.8	0.7	63.4	0.7	0.7	55.1	0.7	231.1	232.4	-0.6%	(1.3)
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	11.3	13.9	13.6	13.8	13.2	153.3	150.3	2.0%	3.0
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	59.5	59.6	-0.1%	(0.1)
Leased Vehicle Surcharge & Other	0.6	1.5	0.1	0.7	0.3	0.4	1.0	0.5	0.6	0.6	0.7	0.7	7.7	7.6	1.3%	0.1
TOTAL SELECTIVE SALES TAXES	27.3	83.5	26.5	26.6	78.8	26.5	25.7	88.1	28.6	28.4	82.8	49.0	571.8	570.6	0.2%	1.2
Withholding	94.5	95.5	107.6	91.1	98.7	148.2	97.0	94.8	112.7	99.5	101.1	109.9	1,250.7	1,265.3	-1.2%	(14.6)
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	0.1	3.0	0.2	1.6	(0.1)	6.7	6.1	11.1%	0.7
Gross Personal Income Tax	93.8	108.7	157.3	127.6	113.3	212.3	138.2	124.8	156.9	254.4	134.0	188.1	1,809.6	1,801.5	0.4%	8.0
Transfer to PIT Suspense	(8.6)	(7.8)	(11.7)	(9.4)	(8.5)	(11.1)	(165.3)	(72.4)	(46.7)	(19.6)	(12.9)	(8.4)	(382.4)	(393.4)	-2.8%	11.0
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)	-1.2%	0.3
Less: Refunds, distributions to other funds	(10.8)	(10.0)	(13.8)	(11.6)	(10.7)	(13.3)	(167.5)	(74.6)	(48.9)	(21.8)	(15.1)	(10.9)	(409.2)	(420.4)	-2.7%	11.3
NET PERSONAL INCOME TAX	83.0	98.7	143.5	116.0	102.5	199.1	(29.2)	50.1	108.0	232.6	118.9	177.2	1,400.4	1,381.1	1.4%	19.3
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)	56.1	121.9	240.7	128.2	201.7	1,481.3	1,486.1	-0.3%	(4.7)
Oil and Gas School Tax	25.2	26.6	27.7	31.4	35.3	35.5	30.1	28.0	31.7	31.3	30.5	27.0	360.3	352.7	2.1%	7.6
Oil Conservation Tax	1.3	1.4	1.4	1.6	1.8	1.8	1.6	1.5	1.7	1.6	1.8	1.4	18.9	18.3	3.4%	0.6
Resources Excise Tax	0.7	0.8	0.7	0.7	0.9	0.7	0.7	0.7	0.8	0.7	0.7	0.8	9.1	9.3	-2.5%	(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	0.2%	0.0
TOTAL MINERAL PROD. TAXES	28.3	29.5	30.8	34.6	38.8	38.8	33.2	31.0	35.1	34.5	33.9	30.0	398.5	390.5	2.0%	8.0
LICENSE FEES	2.3	2.5	2.2	3.9	2.4	10.7	2.0	3.3	3.2	3.0	3.3	3.2	42.0	54.2	-22.5%	(12.2)
Land Grant Perm. Fund Distributions	48.8	48.8	48.8	48.9	48.9	48.9	48.9	48.7	48.7	48.7	48.7	48.7	585.7	584.9	0.1%	0.8
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	66.6	66.3	66.3	66.3	66.3	794.7	795.3	-0.1%	(0.6)
Federal Mineral Leasing Royalties	33.0	33.8	29.4	66.4	32.2	36.2	44.6	38.8	36.2	36.2	100.0	36.2	523.1	510.0	2.6%	13.1
State Land Office Bonuses, Rents	14.9	12.1	13.2	7.7	15.9	3.0	15.6	8.4	2.5	2.5	2.5	2.5	100.9	95.0	6.2%	5.9
TOTAL RENTS & ROYALTIES	47.9	45.9	42.6	74.2	48.2	39.3	60.2	47.2	38.7	38.7	102.5	38.7	624.0	605.0	3.1%	19.0
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	1.9	0.9	1.0	1.1	1.1	20.4	48.7	50.7	-3.9%	(2.0)
REVERSIONS	0.0	0.0	0.0	0.1	3.6	0.0	0.6	1.2	5.2	1.8	2.5	22.6	37.6	40.0	-6.0%	(2.4)
TOTAL RECURRING REVENUE	451.5	534.0	500.8	557.2	549.8	589.5	369.2	461.7	489.4	600.7	595.5	657.1	6,356.2	6,248.6	1.7%	107.6
Non-Recurring	0.0	13.5	0.5	2.5	15.5	11.2	0.0	-	-	-	-	-	43.2	-	-	-
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	-	-	-	-	8.0	51.2	68.2	-	(17.0)
GRAND TOTAL REVENUE	451.5	547.5	501.3	559.7	565.3	600.6	369.2	461.7	489.4	600.7	595.5	665.1	6,407.4	6,316.8	1.4%	90.6

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