



NEW MEXICO  
LEGISLATIVE  
FINANCE  
COMMITTEE

# Revenue Tracking and Fiscal Update

Jon Clark, Chief Economist, LFC  
Dawn Iglesias, Economist, LFC

Presented to the  
Revenue Stabilization and Tax Policy Committee  
June 25, 2018

# Post-Session Summary

---

- FY19 General fund appropriations (HB2)
  - Rising revenues and reserve levels allowed FY19 general fund appropriations to grow by \$259 million, or 4.3 percent, over FY18 recurring appropriations
  - The appropriations include \$90 million for state employee compensation increases, including targeted higher rates of average increases for certain types of positions



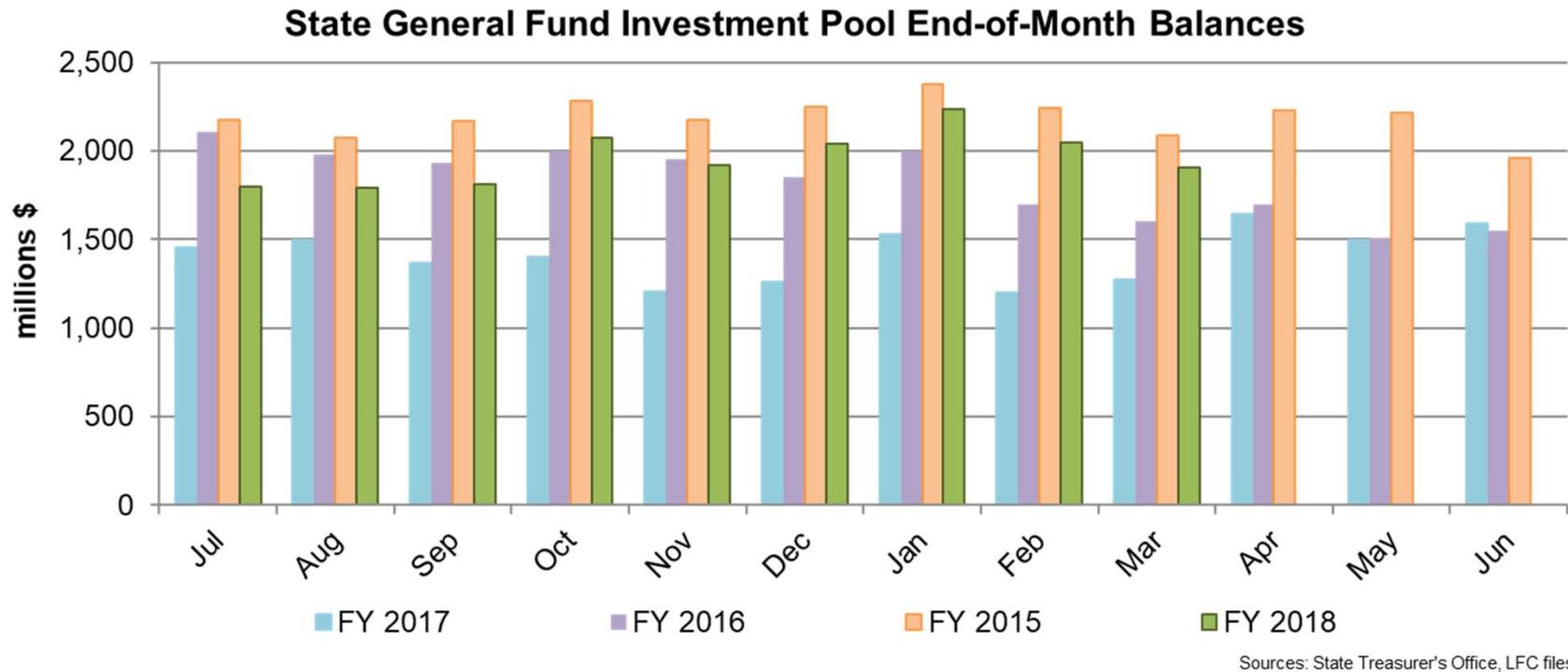
Excluding compensation increases, agency budgets grew by an average of 1.7 percent. The session ended with projected FY19 reserves at 10 percent.

**General Fund Financial Summary:**  
**2018 Regular Session General Appropriation Act, Feed Bill, Revenue Bills, and Vetoes**  
(millions of dollars)

May 1, 2018	Prelim. FY2017	Estimate FY2018	Estimate FY2019
<b><u>APPROPRIATION ACCOUNT</u></b>			
<b>REVENUE</b>			
Total Recurring Revenue	\$ 5,885.4	\$ 6,248.6	\$ 6,365.1
Total Nonrecurring Revenue	\$ 575.7	\$ 65.5	\$ -
<b>TOTAL REVENUE</b>	<b>\$ 6,461.1</b>	<b>\$ 6,314.1</b>	<b>\$ 6,365.1</b>
<b>APPROPRIATIONS</b>			
Total Recurring Appropriations	\$ 6,103.6	\$ 6,078.8	\$ 6,332.3
Total Nonrecurring Appropriations	\$ 26.0	\$ 122.1	\$ 47.8
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 6,129.6</b>	<b>\$ 6,200.9</b>	<b>\$ 6,380.1</b>
Transfer to (from) Reserves	\$ 331.5	\$ 113.1	\$ (15.1)
<b>GENERAL FUND RESERVES</b>			
Beginning Balances	\$ 147.7	\$ 505.1	\$ 617.7
Transfers from (to) Appropriations Account	\$ 331.5	\$ 113.1	\$ (15.1)
Revenue and Reversions	\$ 78.0	\$ 56.5	\$ 69.7
Appropriations, Expenditures and Transfers Out	\$ (52.2)	\$ (57.0)	\$ (36.0)
<b>Ending Balances</b>	<b>\$ 505.1</b>	<b>\$ 617.7</b>	<b>\$ 636.3</b>
<i>Reserves as a Percent of Recurring Appropriations</i>	8.3%	10.2%	10.0%



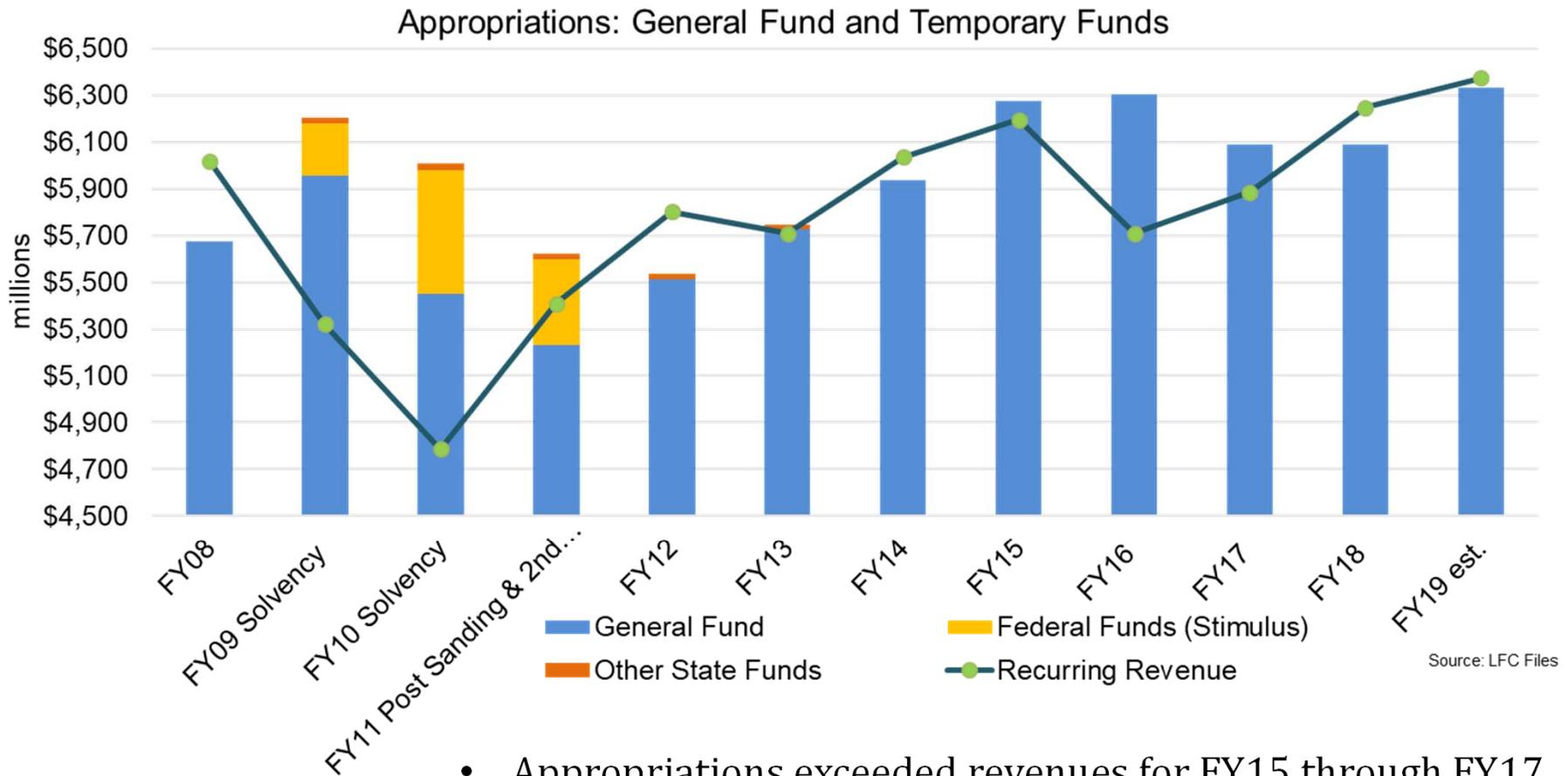
# Recovery of treasury cash balances



- Treasury cash balances now exceed FY16 and FY17 levels, nearing FY15 levels



# Recurring revenues finally expected to exceed FY15 levels in FY18

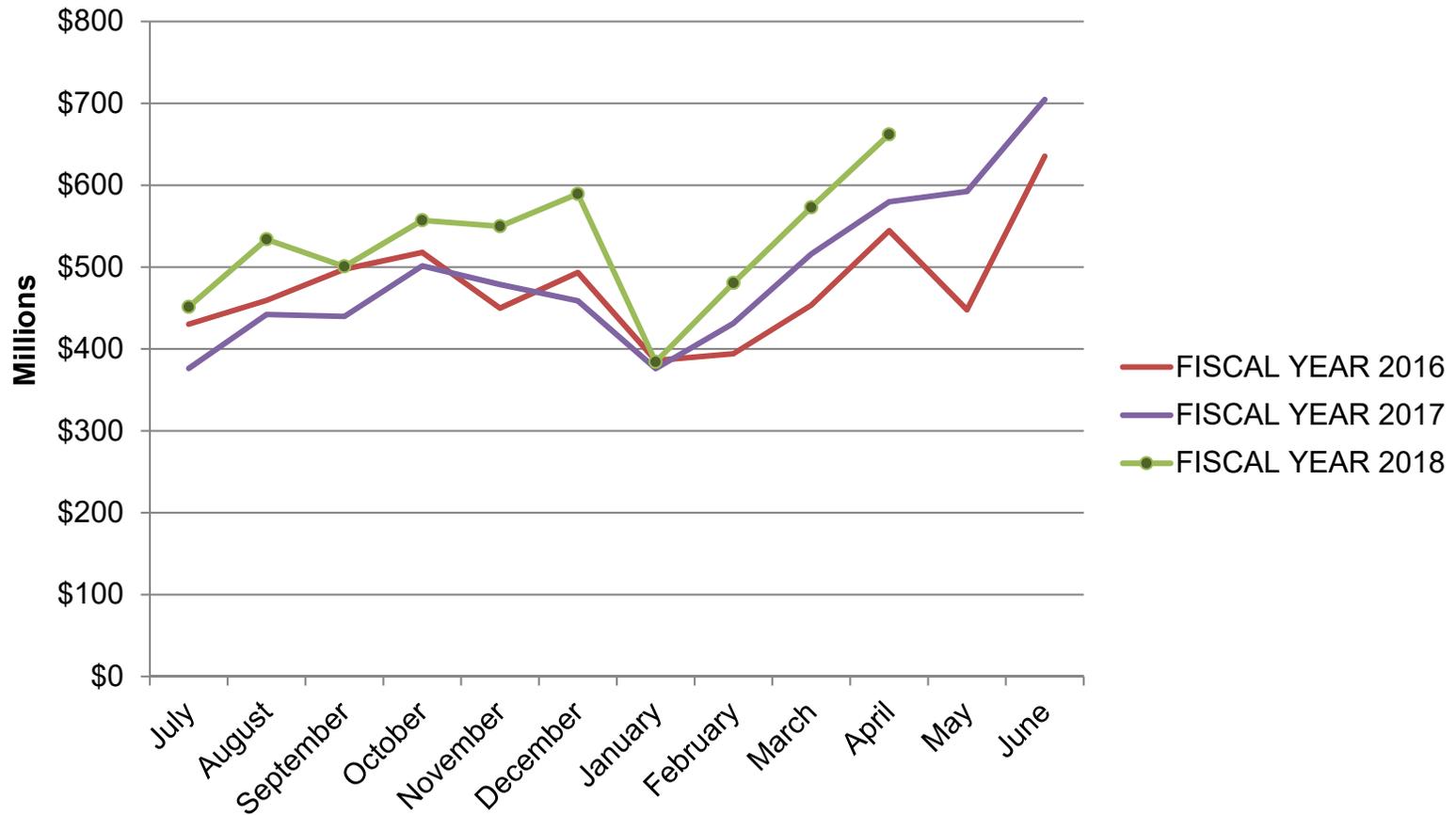


- Appropriations exceeded revenues for FY15 through FY17
- FY17 and FY18 appropriations lower than FY09



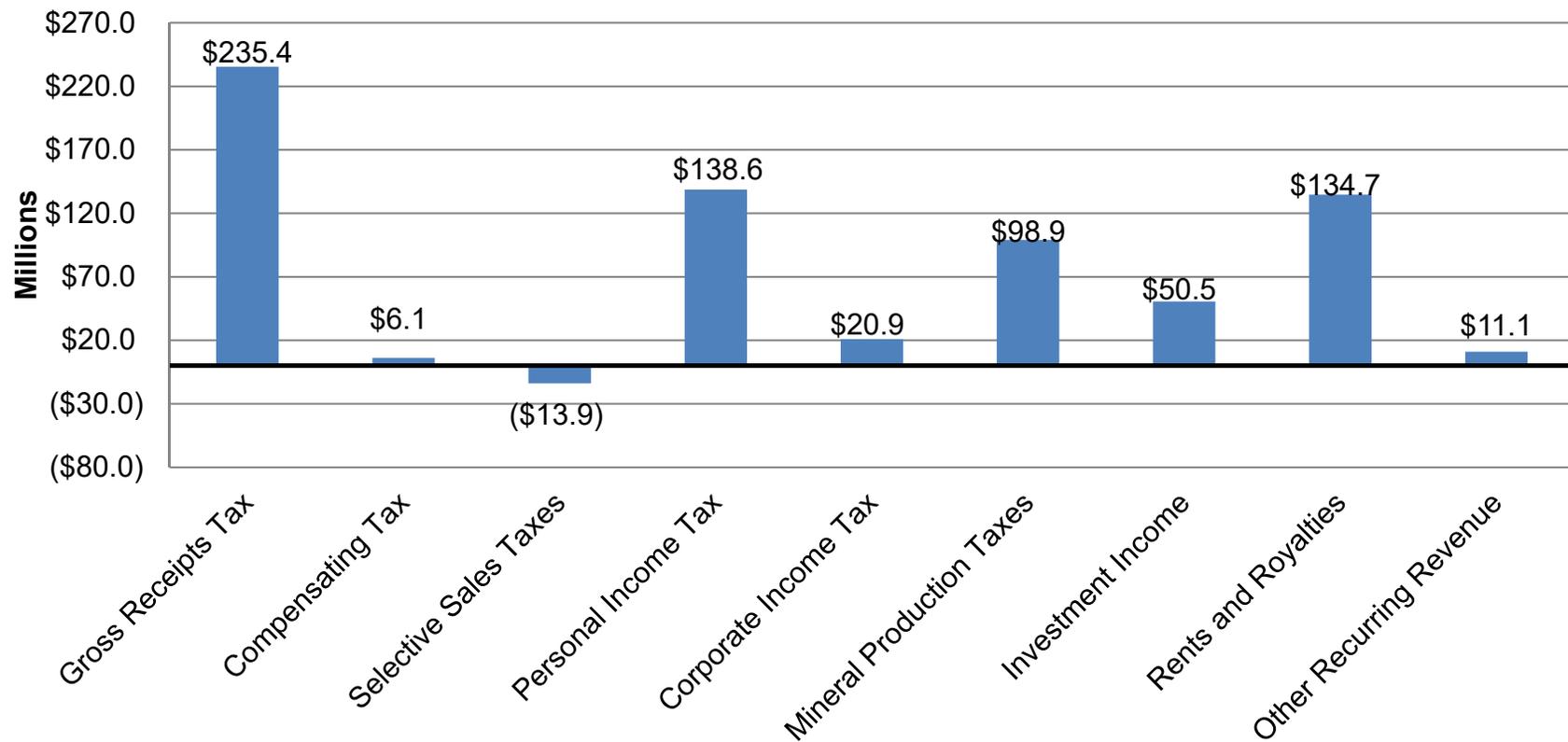
# Revenues tracking above FY16 and FY17 for almost all months

Recurring General Fund Revenue, July - June



# Revenue collections through April are up \$682.3 million, or 14.8 percent, from last year

**Fiscal Year-to-Date Recurring Revenue Collections  
FY18 versus FY17 through April**



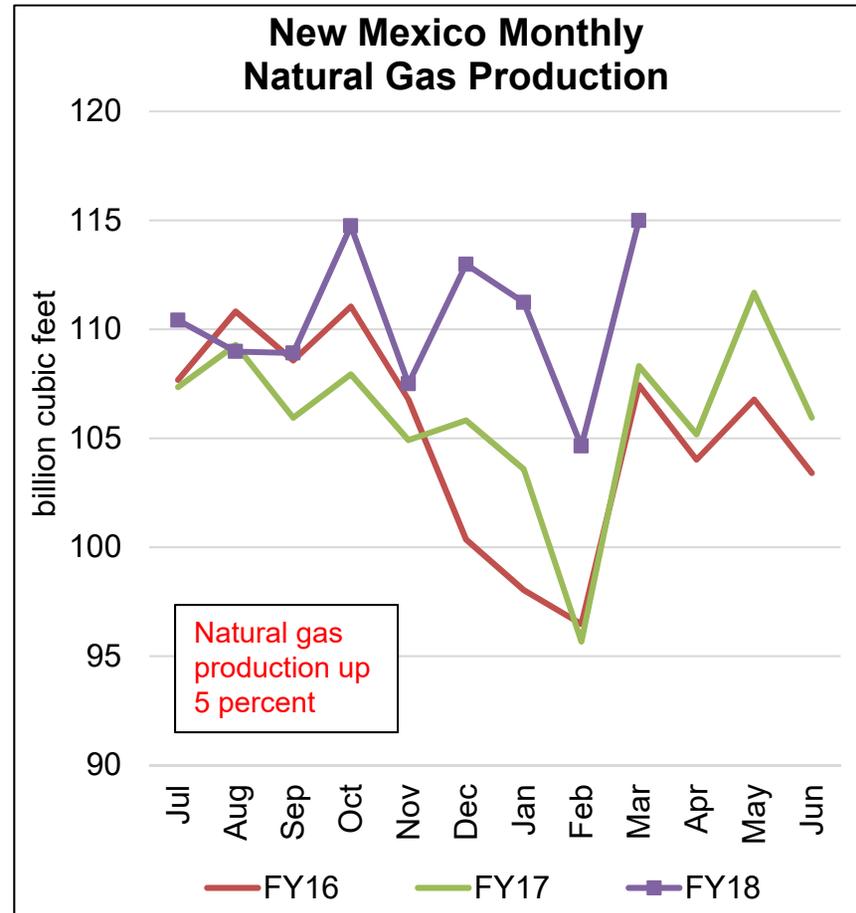
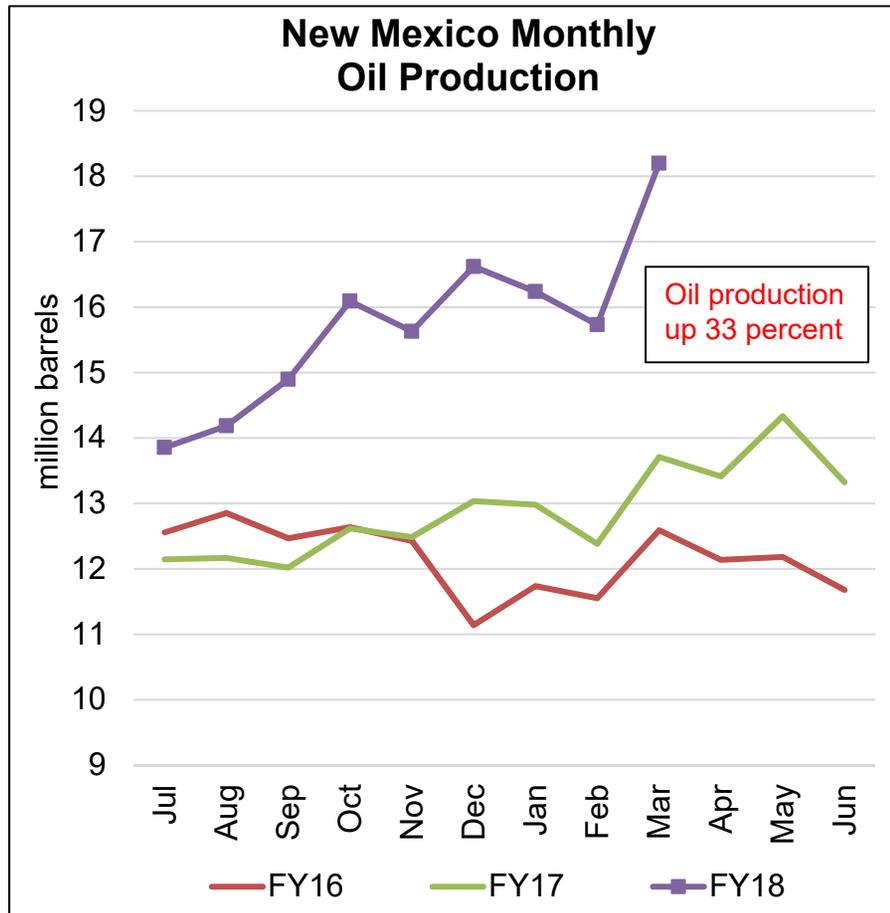
# General fund recurring revenues through April tracking \$307.5 million above consensus forecast

FISCAL YEAR 2018 GENERAL FUND MONTHLY REVENUE TRACKING				
(dollars in millions)				
	FY18	TRACKING CHANGE		
	Actual + Estimate	FY18 Jan. Forecast	% Diff.	\$ Diff.
TOTAL GENERAL SALES TAXES	2,364.6	2,191.4	7.9%	173.2
TOTAL SELECTIVE SALES TAXES	533.8	570.6	-6.4%	(36.8)
NET PERSONAL INCOME TAX	1,446.8	1,381.1	4.8%	65.7
CORPORATE INCOME TAX	100.7	105.0	-4.1%	(4.3)
TOTAL INCOME TAXES	1,547.5	1,486.1	4.1%	61.4
TOTAL MINERAL PROD. TAXES	444.4	390.5	13.8%	53.9
LICENSE FEES	58.4	54.2	7.7%	4.2
TOTAL INVESTMENT EARNINGS	797.5	795.3	0.3%	2.2
TOTAL RENTS & ROYALTIES	665.1	605.0	9.9%	60.1
TRIBAL REVENUE SHARING	63.1	64.8	-2.7%	(1.7)
MISCELLANEOUS RECEIPTS	48.8	50.7	-3.8%	(1.9)
REVERSIONS	32.9	40.0	-17.8%	(7.1)
<b>TOTAL RECURRING REVENUE</b>	<b>6,556.1</b>	<b>6,248.6</b>	<b>4.9%</b>	<b>307.5</b>
Non-Recurring	43.5			
Additional Transfers	8.0			
<b>TOTAL NON-RECURRING REVENUE</b>	<b>51.5</b>	<b>68.2</b>		<b>(16.7)</b>
<b>GRAND TOTAL REVENUE</b>	<b>6,607.6</b>	<b>6,316.8</b>	<b>4.6%</b>	<b>290.8</b>

- Surge in oil production and rising oil prices are causing a spike in mineral production taxes and GRT
- Tax refund protests continue to threaten GRT revenues

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

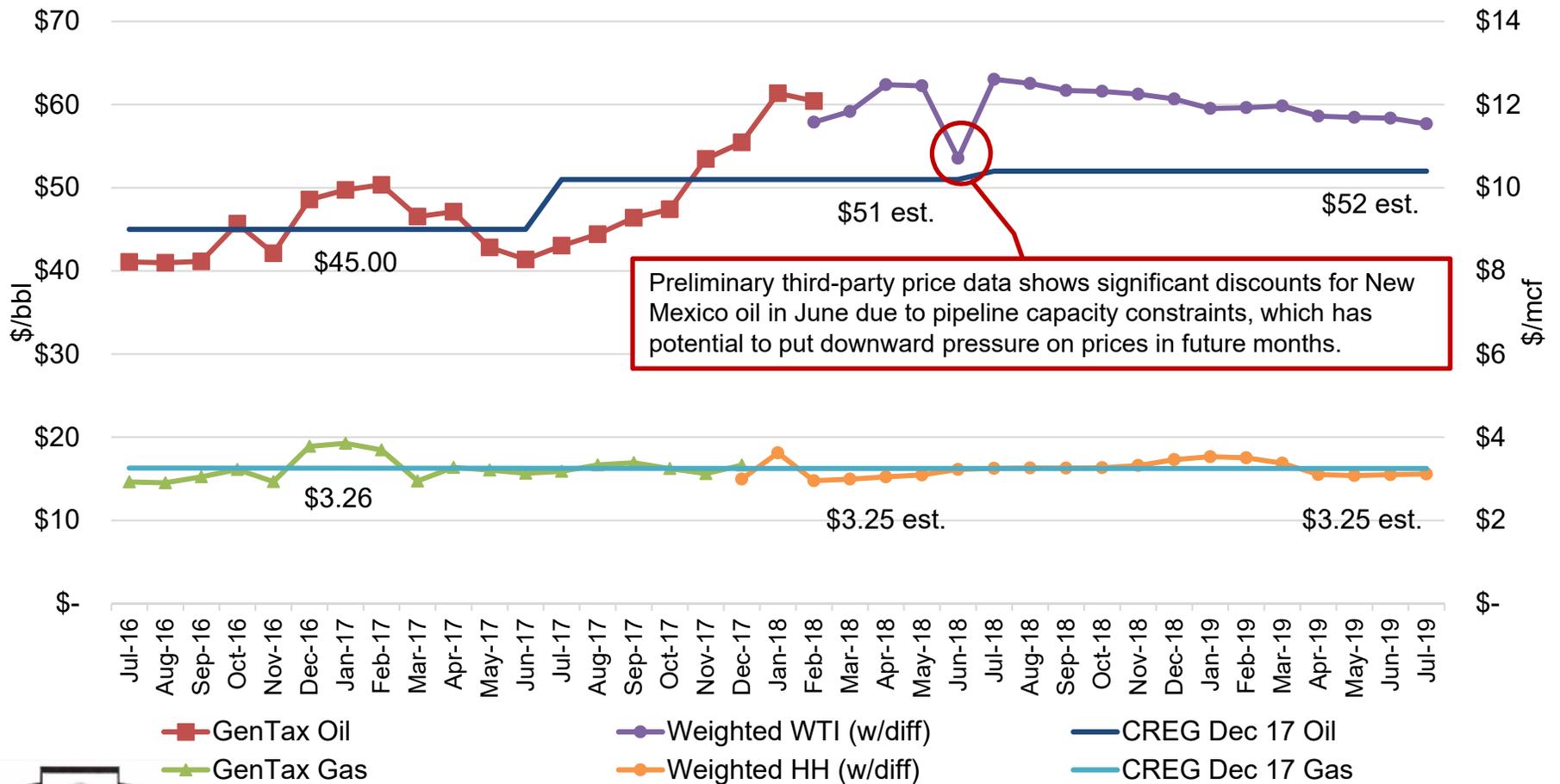
Oil production growing rapidly. State on track to produce over 190 million barrels in FY18. Direct energy-related revenues up over \$194.8 million fiscal year-to-date.



Source: EMNRD, updated 06/06/18

# Oil prices are tracking about \$4 above the January 2018 consensus forecast, and natural gas prices are on par with the forecast

## Current Oil and Natural Gas Prices



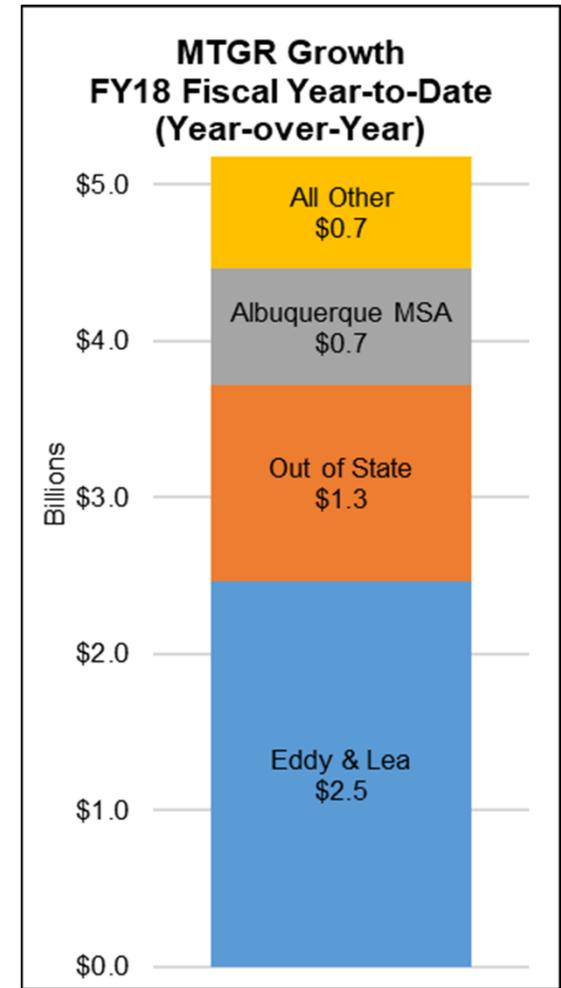
Preliminary third-party price data shows significant discounts for New Mexico oil in June due to pipeline capacity constraints, which has potential to put downward pressure on prices in future months.



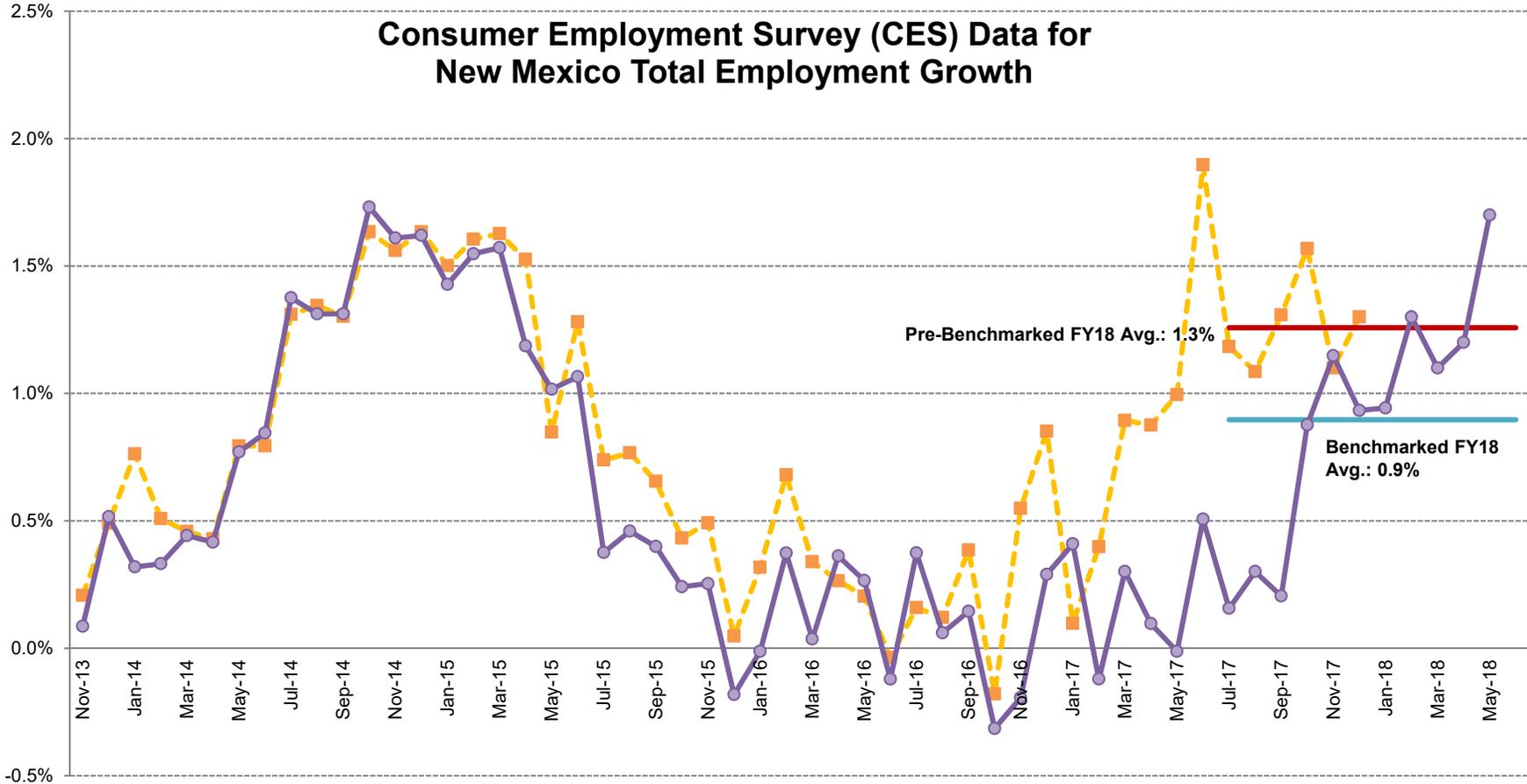
Source: Weighted oil and gas prices derived from EIA, GI and NYMEX Forecasts; Updated 06/06/2018

# Matched taxable gross receipts (MTGR) are up 13.6 percent for first three quarters of FY18

- For FY18 Q1-Q3, MTGR grew \$5.2 billion vs. FY17 Q1-Q3
- About half of all MTGR growth is concentrated in Eddy and Lea counties. Almost 25 percent was generated from out-of-state.
- About 70 percent of all MTGR growth is attributable to mining, construction, retail, and wholesale trade



# Annual benchmarking resulted in downward revision to NM employment data



Source: Bureau of Labor Statistics (CES data), BBER October 2017 (based on QCEW data)





# TAX ISSUES



# Notable Tax Legislation Enacted

---

- **SB 99** – creates GRT deduction for certain military-related construction services
- **HB 79** – creates GRT deduction for sale of certain items by NM small businesses on the Saturday after Thanksgiving
- **SB 231** – creates a foster youth employment business tax credit of up to \$1,000 per foster youth hired
- **HB 35** – increases liquor excise tax distributions to the local DWI grant fund and creates a new drug court fund
- **HB 194** – allows taxpayers to present “alternative evidence” in lieu of a nontaxable transaction certificate (NTTC)



# Notable Tax Legislation Enacted, con't

---

- **HB 245** – deals with construction cost segregation for sales of tangible personal property to governments, nonprofits, and companies using industrial revenue bonds
- **HB 223** – transfers insurance premium tax collections from Office of Superintendent of Insurance to the Taxation and Revenue Department
- **HB 329** – allows Mexican truckers operating within 10 miles of the border to apply for longer-term special fuel user permits



# Notable Tax Legislation NOT Enacted

---

- **SB 192** – imposed a daily surcharge on certain healthcare facilities
  - Would have leveraged federal funding by increasing the Medicaid provider reimbursement rate for these facilities
  - Passed unanimously by the Legislature; vetoed by the governor
- **SB 17** – intended to protect existing GRT revenues if the Los Alamos National Laboratory management contract is awarded to a nonprofit organization
  - Passed with more than a three-fourths combined majority; vetoed by the governor
  - The new LANL contract was awarded in June to Triad National Security LLC, a nonprofit made up of the University of California, Texas A&M University, and Battelle
  - Reduction in GRT revenues is likely due to Triad’s reported nonprofit status
- Tax reform proposals were introduced, but none made it past the first committee. However, the issue will continue to be discussed and likely addressed again in 2019.



# Outlook for Tax Issues: Interim and Next Session

---

- Strong need to maintain higher reserves to protect against risks to the revenue forecast
  - Energy industry cyclical impacts
  - Possibility of recession
  - Tax refund claims and protests
- Federal Tax Cut and Jobs Act
  - Will impact state revenues and taxpayers, particularly families who were able to claim the now-eliminated personal exemption for each dependent child
  - Likelihood for state legislation in next session



# Outlook for Tax Issues: Interim and Next Session

---

- Chemical and reagents GRT deduction
  - Received significant discussion during the session, but no action
  - Will be discussed further this interim
- Likelihood for amended tax credits
  - High-wage jobs
  - Film
- Legislation to align GRT legal structure with recent Supreme Court ruling on remote/Internet sellers
- Tax reform to broaden the GRT base and reduce rates
  - The reform package should improve revenue stability
  - Could include direct anti-pyramiding, but lower rates also help
  - Likely to include healthcare tax reform - mostly out of the GRT base

