

June 10, 2020

MEMORANDUM

TO: Senator John Arthur Smith, Chair, Legislative Finance Committee
Representative Patricia Lundstrom, Vice Chair, Legislative Finance Committee

FROM: Staff Economists of the Legislative Finance Committee, Taxation and Revenue Department,
Department of Finance and Administration, and Department of Transportation

THRU: Acting Secretary Deborah Romero, Department of Finance and Administration
Secretary Stephanie Schardin Clarke, Taxation and Revenue Department
Director David Abbey, Legislative Finance Committee

CC: Members of the Legislative Finance Committee

SUBJECT: Consensus Revenue Estimating Group – June 2020 Special Session Revenue Update

Governor Michelle Lujan Grisham has called a special legislative session for June 18, 2020 to address the ongoing effects of the novel coronavirus that causes COVID-19. To assist lawmakers in this process, the Consensus Revenue Estimating Group (CREG) – comprised of economists from the Legislative Finance Committee (LFC), the Department of Finance and Administration (DFA), the Taxation and Revenue Department (TRD), and the Department of Transportation (DOT) – reviewed the expected fiscal and economic impacts of this public health crisis and measures taken to contain the spread of the virus, as well as changes in global energy markets.

This memorandum summarizes the work and conclusions of the CREG and contains an updated consensus revenue forecast for fiscal years 2020 through 2022. However, there remains considerable uncertainty surrounding the potential outcomes for employment and various tax and revenue collections. In the following week, state economists will receive a report of collections of income and gross receipts taxes for the month of April 2020. Because April was the first full month of closures for non-essential businesses, this data may provide additional insight on the depth of the revenue decline for FY20. As such, the CREG may provide an update to FY20 revenues in a subsequent memo prior to the start of the 2020 special legislative session.

June 2020 Consensus General Fund Recurring Revenue Outlook (in millions)

	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>
December 2019 Consensus ¹	\$7,776.4	\$7,870.5	\$7,925.6
June 2020 Adjustments	(\$439.0)	(\$1,979.0)	(\$1,705.0)
June 2020 Consensus	\$7,337.5	\$5,891.5	\$6,220.5
Change from Prior Year	-8.4%	-19.7%	5.6%

Based on the June 2020 forecast update, spending adjustments or reserve authorization will be required in the upcoming special session to balance the FY20 budget. In FY21, without any changes, general fund revenues and reserves would be insufficient to meet recurring appropriations, with general fund ending balances projected to be negative 8.8 percent at the end of FY21.

Absent any changes, “new money,” defined as projected recurring revenues for FY22 less FY21 recurring appropriations, is estimated at negative \$1.4 billion for FY22.

While this forecast weighs all currently available information, the actual outcomes for the state’s finances will depend on a variety of factors: the epidemiological path of the virus, the strategies for reopening the New Mexico

¹ December 2019 consensus estimate adjusted for 2020 legislation

and U.S. economies, the time it takes consumer confidence to rebound, the effect of business closures on the long-term viability of New Mexico's businesses, the degree to which temporary layoffs become permanent, and the impact of global oil supply and demand on oil prices and the associated effect on the state's oil production.

Baseline Assumptions and Inputs. The CREG modeled potential revenue impacts using the latest macroeconomic forecasts for the U.S. and New Mexico economies from IHS Markit, Moody's Analytics, and UNM's Bureau of Business and Economic Research (BBER). A comparison chart of the economic indicators informing the projections is attached to this memo.

The macroeconomic forecasts by IHS Markit and Moody's Analytics show the national economy entering recession in the first quarter of 2020 as restaurants, theatres, resorts, airlines, retail outlets, personal services, home and vehicle sales, sporting events, and other activities began shutting down in March. Unlike most recessions, which are caused by either a demand or supply-side shock, national and state economies face an unprecedented economic event causing both supply and demand shocks simultaneously.

Although rapidly evolving economic conditions place significant uncertainty on the depth and duration of the decline, both IHS Markit and Moody's forecasts expect recovery to begin in the third quarter as states relax their restrictions. Recovery, however, is expected to be gradual, and forecasts show the economy could take years to reach pre-pandemic levels.

Widespread business closures and associated layoffs are expected to cause significant declines in personal income tax and gross receipts tax (GRT) revenues. Low oil prices and declining production will significantly reduce severance tax revenues, federal royalty payments, and GRT collections from drilling activity. Other revenues, including corporate income tax, motor vehicle excise tax, gaming excise tax, and tribal revenue sharing, are also expected to decline. Receipts from internet sales is a bright spot for New Mexico's finances, as revenues were outpacing original estimates before the spread of the virus and stay-at-home orders increased online shopping activity.

As an energy-producing state, New Mexico's finances are highly susceptible to changes in commodity prices and produced volumes that affect all of the state's major revenue sources, including severance taxes, federal royalty payments, gross receipts tax, and personal income tax.

IHS Markit and Moody's forecasts anticipate a prolonged period of low oil prices that has already led Permian basin oil producers to drastically cut investment plans and shut-in wells. This market contraction will be particularly detrimental to general fund revenues. Nearly 70 percent of revenue growth from FY18 to FY19 was tied directly or indirectly to growth in the oil and gas industry, and current low oil prices and associated drilling and production declines could eliminate a significant portion of recurring revenue for years to come.

In April 2020, New Mexico's unemployment rate was 11.3 percent, according to the U.S. Bureau of Labor Statistics (BLS). However, this data was collected in mid-April, and since unemployment claims have continued to grow, the BLS figure may not have captured the extent of employment declines that month. BBER's May 2020 New Mexico forecast projects employment declines will continue through the third quarter of 2020, after which the state is expected to have small employment gains through mid-2021 and a stronger recovery through 2022. However, BBER's baseline forecast projects New Mexico's employment levels will not recover to pre-recession levels until 2025.

Stress-Testing. Recognizing the considerable risks to the forecast, the CREG performed a stress test of the revenue estimate, the assumptions and results of which are shown in Attachments 3 and 4. Notably, even under an optimistic scenario of faster-than-expected recovery in employment and oil prices, FY22 revenues could still be about \$930 million below the December 2019 consensus revenue estimate. Under a pessimistic scenario of a prolonged recession and another collapse in oil prices, FY21 and FY22 recurring revenues could both come in about \$2.4 billion below the December 2019 estimate.

General Fund Consensus Revenue Estimate - June 2020 Special Session Update

Revenue Source	FY19	FY20					FY21					FY22				
	Dec 2019 Audited Actual	Dec 2019 Est. Legislation-Adjusted	June 2020 Est.	Change from Prior (Dec. 19)	% Change from FY19	\$ Change from FY19	Dec 2019 Est. Legislation-Adjusted	June 2020 Est.	Change from Prior (Dec. 19)	% Change from FY20	\$ Change from FY20	Dec 2019 Est. Legislation-Adjusted	June 2020 Est.	Change from Prior (Dec. 19)	% Change from FY21	\$ Change from FY21
Base Gross Receipts Tax	2,772.8	3,083.8	2,879.7	(204.1)	3.9%	106.9	3,087.3	2,270.6	(816.7)	-21.2%	(609.1)	3,056.0	2,404.3	(651.7)	5.9%	133.7
F&M Hold Harmless Payments	(113.4)	(155.0)	(171.4)	(16.4)	51.1%	(58.0)	(121.4)	(132.1)	(10.7)	-22.9%	39.3	(113.4)	(118.2)	(4.8)	-10.5%	13.9
NET Gross Receipts Tax	2,659.4	2,928.8	2,708.3	(220.5)	1.8%	48.9	2,965.8	2,138.5	(827.3)	-21.0%	(569.8)	2,942.6	2,286.1	(656.5)	6.9%	147.6
Compensating Tax	78.3	82.9	55.0	(27.9)	-29.7%	(23.3)	85.4	35.8	(49.7)	-35.0%	(19.3)	88.0	37.9	(50.1)	5.9%	2.1
TOTAL GENERAL SALES	2,737.7	3,011.7	2,763.3	(248.4)	0.9%	25.6	3,051.3	2,174.3	(877.0)	-21.3%	(589.1)	3,030.6	2,324.0	(706.7)	6.9%	149.7
Tobacco Taxes	75.4	88.6	84.0	(4.6)	11.4%	8.6	88.0	84.0	(4.0)	0.0%	-	88.2	84.0	(4.2)	0.0%	-
Liquor Excise	25.3	23.2	24.1	0.9	-4.7%	(1.2)	23.2	23.8	0.6	-1.2%	(0.3)	22.3	23.8	1.5	0.0%	-
Insurance Taxes	216.3	206.1	206.1	-	-4.7%	(10.2)	215.1	191.9	(23.2)	-6.9%	(14.2)	221.9	206.6	(15.3)	7.7%	14.7
Fire Protection Fund Reversion	-	16.9	16.9	-	n/a	16.9	17.4	17.4	-	3.0%	0.5	18.0	18.0	-	3.0%	0.5
Motor Vehicle Excise	152.5	150.0	118.8	(31.2)	-22.1%	(33.7)	153.5	107.8	(45.7)	-9.3%	(11.0)	131.5	103.7	(27.8)	-3.8%	(4.1)
Gaming Excise	64.9	66.5	47.1	(19.4)	-27.4%	(17.8)	68.8	54.0	(14.8)	14.5%	6.9	70.9	56.6	(14.3)	4.8%	2.6
Leased Vehicle & Other	8.7	8.3	7.4	(0.9)	-15.3%	(1.3)	8.3	6.7	(1.6)	-9.5%	(0.7)	8.3	7.6	(0.7)	13.4%	0.9
TOTAL SELECTIVE SALES	543.2	559.7	504.5	(55.2)	-7.1%	(38.8)	574.4	485.6	(88.8)	-3.7%	(18.8)	561.0	500.2	(60.8)	3.0%	14.6
Personal Income Tax	1,672.0	1,623.3	1,513.5	(109.8)	-9.5%	(158.5)	1,654.1	1,298.2	(356.0)	-14.2%	(215.3)	1,700.6	1,375.2	(325.4)	5.9%	77.0
Gross Corporate Income Tax	172.8	134.4	118.8	(15.6)	-31.3%	(54.0)	133.1	101.6	(31.5)	-14.5%	(17.2)	132.4	87.6	(44.8)	-13.8%	(14.0)
CIT Refundable Credits	(50.0)	(78.8)	(78.8)	-	57.6%	(28.8)	(116.9)	(117.4)	(0.5)	49.0%	(38.6)	(145.0)	(145.7)	(0.7)	24.1%	(28.3)
NET Corporate Income Tax	122.8	55.6	40.0	(15.6)	-67.4%	(82.8)	16.2	(15.8)	(32.0)	-139.5%	(55.8)	(12.6)	(58.1)	(45.5)	267.7%	(42.3)
TOTAL INCOME TAXES	1,794.8	1,678.9	1,553.5	(125.4)	-13.4%	(241.3)	1,670.3	1,282.4	(388.0)	-17.5%	(271.1)	1,688.1	1,317.1	(370.9)	2.7%	34.7
Gross Oil and Gas School Tax	555.4	588.4	504.3	(84.1)	-9.2%	(51.0)	597.5	308.7	(288.8)	-38.8%	(195.6)	618.6	346.6	(272.0)	12.3%	37.9
Excess to Tax Stabilization Reserve	(182.8)	(206.4)	(114.7)	(91.7)	-37.3%	(68.2)	(173.2)	-	(173.2)	-100.0%	(114.7)	(119.0)	-	(119.0)	n/a	-
NET Oil & Gas School Tax	372.5	382.0	389.7	7.7	4.6%	17.2	424.3	308.7	(115.6)	-20.8%	(81.0)	499.6	346.6	(153.0)	12.3%	427.6
Oil Conservation Tax	28.7	31.2	26.8	(4.4)	-6.6%	(1.9)	31.6	16.2	(15.4)	-39.6%	(10.6)	32.5	18.2	(14.3)	12.3%	2.0
Resources Excise Tax	7.8	7.4	6.8	(0.6)	-13.2%	(1.0)	7.5	6.3	(1.2)	-7.4%	(0.5)	7.2	6.9	(0.3)	9.5%	0.6
Natural Gas Processors Tax	15.1	14.3	14.9	0.6	-1.5%	(0.2)	9.5	9.0	(0.5)	-39.6%	(5.9)	9.0	6.9	(2.1)	-23.3%	(2.1)
TOTAL SEVERANCE TAXES	424.2	434.9	438.2	3.3	3.3%	14.0	472.9	340.2	(132.7)	-22.4%	(98.0)	548.3	378.6	(169.7)	11.3%	38.4
LICENSE FEES	55.4	52.8	39.2	(13.6)	-29.2%	(16.2)	53.3	53.3	(0.0)	36.0%	14.1	54.0	54.0	-	1.2%	0.7
LGPF Interest	638.7	671.8	673.0	1.2	5.4%	34.3	696.5	719.9	23.4	7.0%	46.9	737.4	759.6	22.2	5.5%	39.7
STO Interest	86.9	82.1	92.4	10.3	6.4%	5.5	59.5	14.8	(44.7)	-84.0%	(77.6)	66.8	1.2	(65.6)	-91.9%	(13.6)
STPF Interest	220.6	225.3	225.3	-	2.1%	4.6	229.4	234.3	4.9	4.0%	9.0	236.7	241.2	4.5	3.0%	6.9
TOTAL INTEREST	946.2	979.1	990.7	11.5	4.7%	44.5	985.4	968.9	(16.4)	-2.2%	(21.7)	1,040.9	1,002.0	(38.9)	3.4%	33.1
Gross Federal Mineral Leasing		810.4	809.9	(0.4)	-29.4%	(336.9)	817.3	388.1	(429.2)	-52.1%	(421.9)	829.8	439.6	(390.2)	13.3%	51.6
Excess to Early Childhood Trust Fund		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	(75.0)	-	(75.0)	n/a	n/a
NET Federal Mineral Leasing	1,146.8	810.4	809.9	(0.4)	-29.4%	(336.9)	817.3	388.1	(429.2)	-52.1%	(421.9)	754.8	439.6	(315.2)	13.3%	51.6
State Land Office	132.5	74.0	65.0	(9.0)	-50.9%	(67.5)	74.5	55.1	(19.4)	-15.2%	(9.9)	74.7	55.9	(18.8)	1.5%	0.8
TOTAL RENTS & ROYALTIES	1,279.3	884.4	874.9	(9.4)	-31.6%	(404.4)	891.8	443.2	(448.6)	-49.3%	(431.8)	829.5	495.5	(334.0)	11.8%	52.4
TRIBAL REVENUE SHARING	78.4	80.1	41.4	(38.7)	2.1%	(37.1)	82.0	59.0	(23.0)	2.4%	17.6	83.8	62.1	(21.7)	2.2%	3.2
MISCELLANEOUS RECEIPTS	53.6	49.4	40.2	(9.2)	-25.0%	(13.4)	49.2	44.7	(4.5)	11.2%	4.5	49.4	47.0	(2.4)	5.2%	2.3
REVERSIONS	96.7	45.5	91.7	46.2	-5.2%	(5.0)	40.0	40.0	-	-56.4%	(51.7)	40.0	40.0	-	0.0%	-
TOTAL RECURRING	8,009.5	7,776.4	7,337.5	(439.0)	-8.4%	(672.0)	7,870.5	5,891.5	(1,979.0)	-19.7%	(1,445.9)	7,925.6	6,220.5	(1,705.0)	5.6%	329.0
TOTAL NONRECURRING	(99.2)	28.8	93.8	65.0	-194.6%	193.0	2.9	2.9	-	-96.9%	(90.9)	-	-	n/a	(2.9)	
GRAND TOTAL	7,910.3	7,805.2	7,431.3	(374.0)	-6.1%	(479.0)	7,873.4	5,894.4	(1,979.0)	-20.7%	(1,536.9)	7,925.6	6,220.5	(1,705.0)	5.5%	326.1

Note: Columns in blue show difference between June 2020 Consensus Revenue Estimate and December 2019 Consensus Revenue Estimate

Note: Columns in red show year-over-year growth expected in the June 2020 Consensus Revenue Estimate

U.S. and New Mexico Economic Indicators

6/8/2020									
	FY20			FY21			FY22		
	Dec 19 Forecast	May 20 Baseline Scenario	May 20 Pessimistic Scenario	Dec 19 Forecast	May 20 Baseline Scenario	May 20 Pessimistic Scenario	Dec 19 Forecast	May 20 Baseline Scenario	May 20 Pessimistic Scenario
National Economic Indicators									
IHS US Real GDP Growth (annual avg., % YOY)*	2.0	-1.6	-3.4	2.2	-3.9	-12.7	1.7	6.7	12.2
Moody's US Real GDP Growth (annual avg., % YOY)*	2.0	-1.2	-1.5	1.5	-3.8	-7.2	2.9	5.3	3.2
IHS US Inflation Rate (CPI-U, annual avg., % YOY)**	2.0	1.6	1.6	1.6	1.1	-0.8	2.2	1.7	-1.0
Moody's US Inflation Rate (CPI-U, annual avg., % YOY)**	1.8	1.6	1.4	2.3	1.0	-1.4	2.4	2.9	1.4
IHS Federal Funds Rate (%)	1.8	1.3	1.3	1.8	0.1	0.1	2.3	0.1	0.1
Moody's Federal Funds Rate (%)	1.8	1.3	1.3	1.4	0.1	0.1	2.0	0.1	0.1
New Mexico Economic Indicators									
BBER NM Non-Agricultural Employment Growth (%)	1.7	-3.3	-3.7	1.2	-9.1	-14.1	1.0	6.2	6.2
Moody's NM Non-Agricultural Employment Growth (%)	1.9	-1.7	-1.9	0.1	-3.2	-5.0	0.4	2.0	0.2
BBER NM Nominal Personal Income Growth (%)***	5.7	5.8	5.8	3.8	3.5	-1.4	4.5	-2.1	-6.2
Moody's NM Nominal Personal Income Growth (%)***	4.6	3.7	3.4	2.8	-0.3	-3.6	3.6	3.0	0.6
BBER NM Total Wages & Salaries Growth (%)	5.8	1.6	1.1	4.8	-6.0	-12.6	3.9	7.2	4.8
Moody's NM Total Wages & Salaries Growth (%)	5.2	1.2	1.0	2.1	-3.5	-6.9	1.8	3.4	-0.1
BBER NM Private Wages & Salaries Growth (%)	5.4	0.5	-0.2	4.7	-8.9	-18.0	4.1	9.5	6.3
BBER NM Real Gross State Product (% YOY)	1.9	-0.5	-0.5	1.2	-4.7	-9.9	1.3	6.6	7.8
Moody's NM Real Gross State Product (% YOY)	3.4	0.3	0.1	1.9	-1.8	-5.1	2.7	5.2	3.2
CREG NM Gross Oil Price (\$/barrel)	\$52.00	\$42.50	\$40.00	\$50.00	\$31.00	\$25.00	\$50.00	\$41.00	\$29.50
CREG NM Net Oil Price (\$/barrel)*****	\$45.75	\$37.32	\$35.12	\$44.00	\$27.22	\$21.95	\$44.00	\$36.00	\$25.90
CREG NM Taxable Oil Volumes (million barrels)	350.0	355.0	345.0	360.0	255.0	190.0	365.0	225.0	165.0
NM Taxable Oil Volumes (%YOY growth)	16.5%	1.4%	-1.4%	2.9%	-28.2%	-44.9%	1.4%	-11.8%	-13.2%
CREG NM Gross Gas Price (\$ per thousand cubic feet)****	\$2.10	\$2.00	\$1.90	\$2.25	\$2.20	\$2.00	\$2.50	\$2.35	\$2.15
CREG NM Net Gas Price (\$ per thousand cubic feet)*****	\$1.26	\$1.20	\$1.14	\$1.47	\$1.44	\$1.31	\$1.67	\$1.57	\$1.43
CREG NM Taxable Gas Volumes (billion cubic feet)	1,610	1,755	1,740	1,625	1,515	1,350	1,650	1,415	1,260
NM Taxable Gas Volumes (%YOY growth)	3.1%	9.0%	8.1%	2.9%	-13.7%	-22.4%	1.4%	-6.6%	-6.7%

Notes

* Real GDP is BEA chained 2012 dollars, billions, annual rate

** CPI is all urban, BLS 1982-84=1.00 base

***Nominal Personal Income growth rates are for the calendar year in which each fiscal year begins

****The gross gas prices are estimated using a formula of NYMEX, EIA, and IHS Markit (November) future prices

*****The net oil and gas prices represent calculated prices based on taxable values of the product after deductions for transportation, processing, and royalties

Sources for Baseline Scenario: BBER - May 2020 FOR-UNM baseline. IHS Global Insight - May 2020 baseline.

Sources for Pessimistic Scenario: BBER - May 2020 FOR-UNM pessimistic. IHS Global Insight - May 2020 pessimistic.

DFA Notes

* Real GDP is BEA chained 2012 dollars, billions, annual rate

** CPI is all urban, BLS 1982-84=1.00 base.

***Nominal Personal Income growth rates are for the calendar year in which each fiscal year begins

****The gross gas prices are estimated using a formula of NYMEX, EIA, and Moody's January future prices

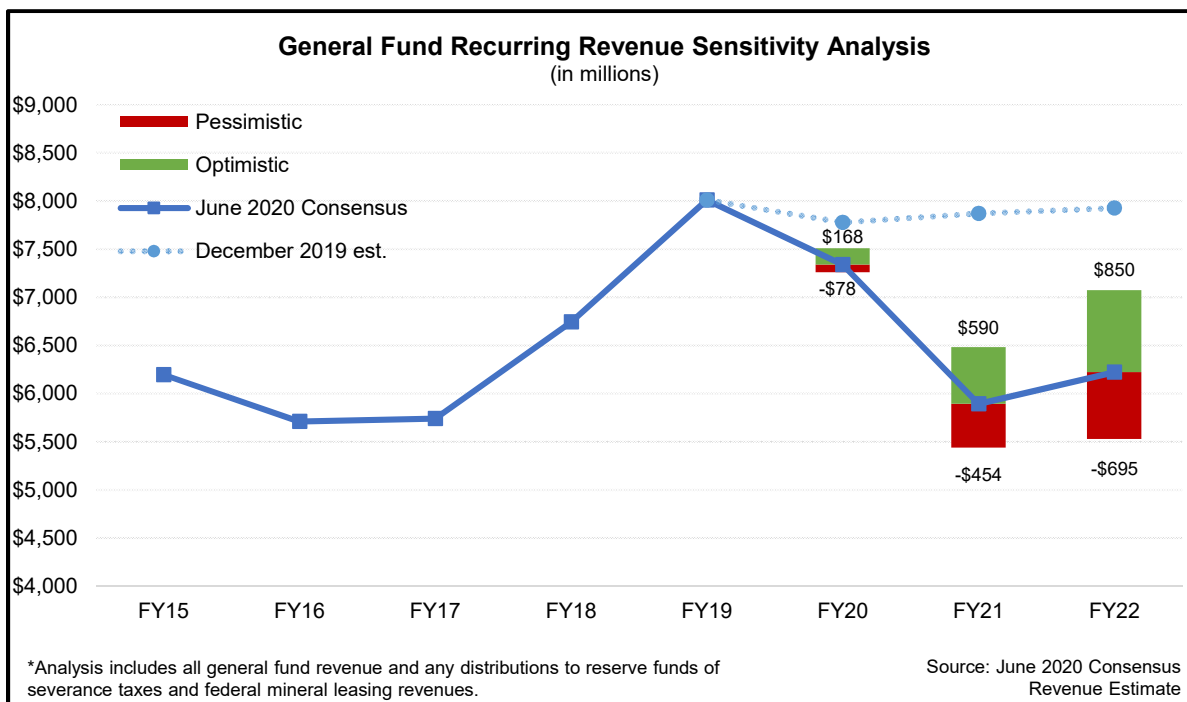
*****The net oil and gas prices represent calculated prices based on taxable values of the product after deductions for transportation, processing, and royalties

Sources: May 2020 Moody's economy.com baseline

June 2020 CREG Forecast Sensitivity Analysis – Outcomes and Assumptions

	Baseline (Consensus Forecast)	Pessimistic	Optimistic
Potential Outcomes that Cause Scenario	<p>New U.S. COVID-19 infections taper by third quarter, but consumer spending hard hit in second quarter.</p> <ul style="list-style-type: none"> • Phased reopening of the economy is underway, but this will slow curtailment of the pandemic, discouraging many consumers from resuming previous spending habits and thus slowing recovery in consumer spending. • April 2020 was the trough of economic activity, with recovery underway thereafter. • Large, broad-based layoffs in April, with recovery beginning in May with the easing of restrictions, but takes 4 years for employment to recover to pre-pandemic levels. • Fiscal stimulus prevents even steeper declines but does little to stimulate demand. • Monetary policy ensures normal functioning of financial markets. 	<p>Economy experiences an even larger, longer hit to production, employment, and income.</p> <ul style="list-style-type: none"> • Slower recovery of consumer spending than in the baseline. • Potential for reopening of the economy and “social distancing fatigue” to result in second wave of COVID-19 in the fall of 2020. • Federal fiscal and monetary policy fails to stimulate demand, and business fixed investment faces a more prolonged contraction. • Major industry impacts cause irreparable harm to businesses, hampering workforce recovery. 	<p>Less severe recession in first half of 2020 followed by a quicker recovery.</p> <ul style="list-style-type: none"> • The spread of COVID-19 is less threatening than the baseline forecast as stay-at-home orders are gradually lifted and social distancing guidelines are properly observed. • Potential for discovery of an effective treatment for the virus. • Increased consumer confidence leads to more rapid rebound in spending. • Fiscal and monetary policy measures are more effective in mitigating the economic damage, allowing for a more expedient recovery in private sector demand.
Oil and Gas:	<ul style="list-style-type: none"> • U.S. oil prices average in the \$30s in second half of 2020, and average in the \$40s in 2021 and 2022. • Permian production begins declines in 2020-Q2; rig counts drop sharply in April and May, then continue slow declines through end of 2020 before beginning to recover in 2021. • Shut-in wells come back online as prices gradually recover, but low rig counts and limited new drilling causes New Mexico oil production to fall 28 percent in FY21. In FY22, new drilling is unable to offset decline rates and production falls another 12 percent. • Declines in Permian oil production and shut-in of uneconomical wells leads to significant declines in associated natural gas production. 	<ul style="list-style-type: none"> • Second wave causes another collapse in U.S. oil prices. • Permian rig counts drop below lowest levels in 2016 downturn and remain low for longer. • Severe limitations on new drilling spurs New Mexico production to follow the natural rate of decline. • New Mexico oil production in FY21 falls to FY17 levels and limited new drilling leads to continued production declines into FY22. • Greater declines in associated natural gas production. 	<ul style="list-style-type: none"> • Faster recovery of oil prices than the baseline, with U.S. oil prices averaging in the \$40s in second half of 2020 and recovering into the \$50s by 2022. • Permian rig counts continue decline into 2020-Q3 but bottom-out higher than in the baseline and then begin recovery. • Reduced capital spending still leads to New Mexico oil production declines, but FY21 declines are less severe than the baseline. • Investment in new drilling is higher than the baseline, with oil production growing in FY22, but still below peak levels.
Employment:	<ul style="list-style-type: none"> • New Mexico unemployment reaches 14 percent to 17 percent in 2020-Q2, with jobs losses concentrated in retail, leisure & hospitality, administrative services, mining and construction. • Job recovery begins in the late summer and fall, but unemployment remains high throughout FY21, recovering to about 8.5 percent by FY22. • Total wages and salaries remain below peak levels through end of FY22. Employment below peak levels through end of 2024. 	<ul style="list-style-type: none"> • Similar to baseline in 2020-Q2 job losses, but with a weaker recovery. • Still takes 5+ years for jobs to recover to pre-virus levels. • Recovery concentrated in low-wage sectors, taking over 5 years for total wages and salaries to return to previous peaks. 	<ul style="list-style-type: none"> • Job losses in 2020-Q2 and Q3 are not as steep as the baseline but recover at a similar rate. • Employment and total wages and salaries reach pre-pandemic levels slightly faster than the baseline.
NM Gross Receipts:	<ul style="list-style-type: none"> • Social distancing restrictions and low consumer spending have significant effects on 2020-Q2 gross receipts, leading to overall declines in FY20 receipts from Bernalillo and other counties excluding Eddy and Lea. • Drop-off in rig counts and drilling activity causes sizeable declines in gross receipts in Eddy and Lea counties and out-of-state receipts, which leads to reduced growth in FY20 and receipts falling considerably in FY21. • The state benefits from a bump in online sales that is stronger than originally estimated, but it fails to offset declines in out-of-state receipts. • Slow recovery of consumer spending furthers declines in FY21 with a modest recovery in FY22 that is still below 2019 levels. 	<ul style="list-style-type: none"> • Prolonged pullback in drilling activity leads to even greater declines in Eddy and Lea counties and out-of-state receipts. • Slower economic recovery and potential second wave of infections causes greater FY21 declines in receipts in the rest of New Mexico and limited recovery of gross receipts in FY22. • Total net GRT collections fall near FY16 levels by FY21, a drop of nearly a billion dollars below the December 2019 forecast. 	<ul style="list-style-type: none"> • Gross receipts decline less in 2020-Q2 and Q3 than the baseline. • Increased consumer spending leads to stronger statewide growth in gross receipts than the baseline. • Less severe declines in rig counts lessens the drop in Eddy and Lea counties and out-of-state receipts in FY21, and faster rebound in oil investment causes stronger growth in FY22.

Stress-Testing the June 2020 Revenue Estimate



Revenue Scenarios, Difference from Baseline Forecast	Optimistic			Pessimistic		
	FY20	FY21	FY22	FY20	FY21	FY22
Severance Taxes	\$0	\$111	\$119	-\$2	-\$110	-\$146
Federal Mineral Leasing	\$12	\$147	\$281	-\$8	-\$115	-\$174
Gross Receipts Taxes	\$39	\$124	\$187	-\$37	-\$149	-\$256
Income Taxes	\$46	\$164	\$220	-\$2	-\$52	-\$94
Other Revenues	\$71	\$44	\$44	-\$28	-\$28	-\$24
Total Difference from Baseline	\$168	\$590	\$850	-\$78	-\$454	-\$695
Difference from Dec 2019 est.	-\$271	-\$1,389	-\$930	-\$517	-\$2,433	-\$2,475

Note: dollars in millions

Total Distributions to Reserves			
Scenario	FY20	FY21	FY22
December 2019 Est.	\$206	\$173	\$194
June 2020 Baseline	\$115	\$0	\$0
Optimistic	\$125	\$18	\$125
Pessimistic	\$74	\$0	\$0

Note: dollars in millions; reflects estimated excess of the five-year average for oil and gas emergency school tax for FY20 through FY22, and excess of the five-year average for federal mineral leasing payments for FY22

