General Fund Revenue and Capital Outlay Outlook

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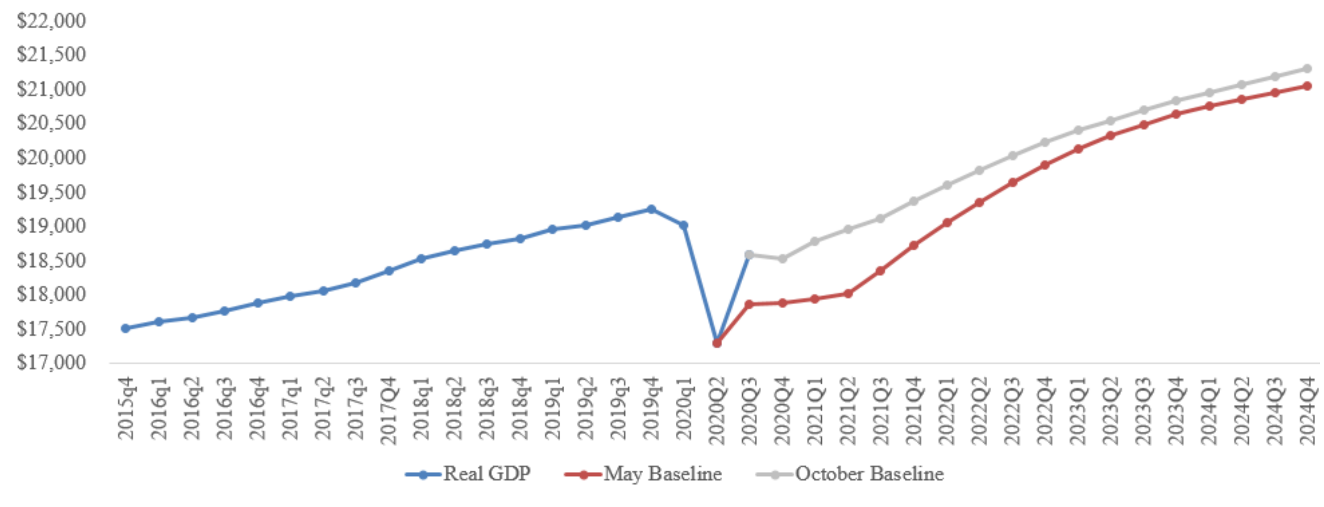
Outline

- Macroeconomic Conditions
- Oil and Natural Gas Markets
- General Fund Revenue Outlook

National RGDP

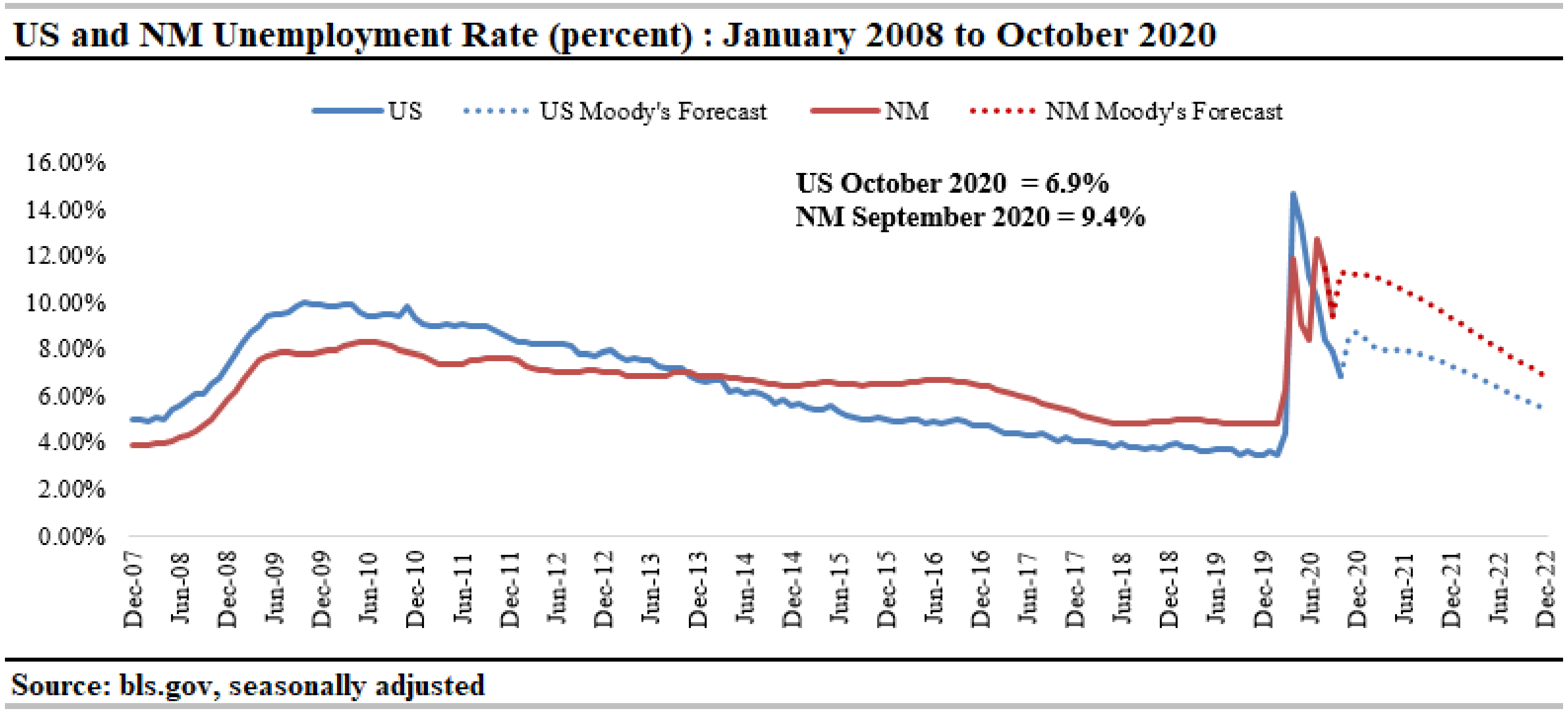
US Real Gross Domestic Product: 2015 Q4 to 2020 Q3, Forecast 2020Q4-2024Q4
(billions of chained 2012 dollars)



Source: GDP in billions of chained 2012 dollars, retrieved from bea.gov. Moody's October 2020 Baseline Scenario vs. May 2020 Baseline Scenario

- US and New Mexico real gross domestic product (RGDP) decreased sharply in the 2020Q2
  - Federal action has bolstered the economy and mitigated some of the negative effects of the COVID-19 crisis.
  - Economy may weaken again as federal stimulus wears off.
- According to the Bureau of Economic Analysis (BEA) advance estimate US RGDP increased from 2020Q2 to 2020Q3 by 31.4 percent.
- In March and April of 2020 the US lost 22.2 million jobs at the beginning of the pandemic. Since then, the US has gained over 12 million jobs.
  - However, the US is still down over 10 million jobs.
- According to BEA the increase in third quarter GDP reflected continued efforts to reopen businesses and resume activities that were postponed or restricted due to COVID-19.
- There is much uncertainty in regards to economic recovery.
- COVID-19 pandemic uncertainty.
  - Unknown changing consumer and business behavior.
  - Unknown when a vaccine will be available and how much will be available.
- Direction of additional federal stimulus legislation.
  - Unknown when and if an agreement for an additional stimulus bill will be reached.
  - The later another round of stimulus agreement is reached the less effective it is on stimulating the recovery (Moody’s Analytics).
  - The form and scale of the stimulus agreement.

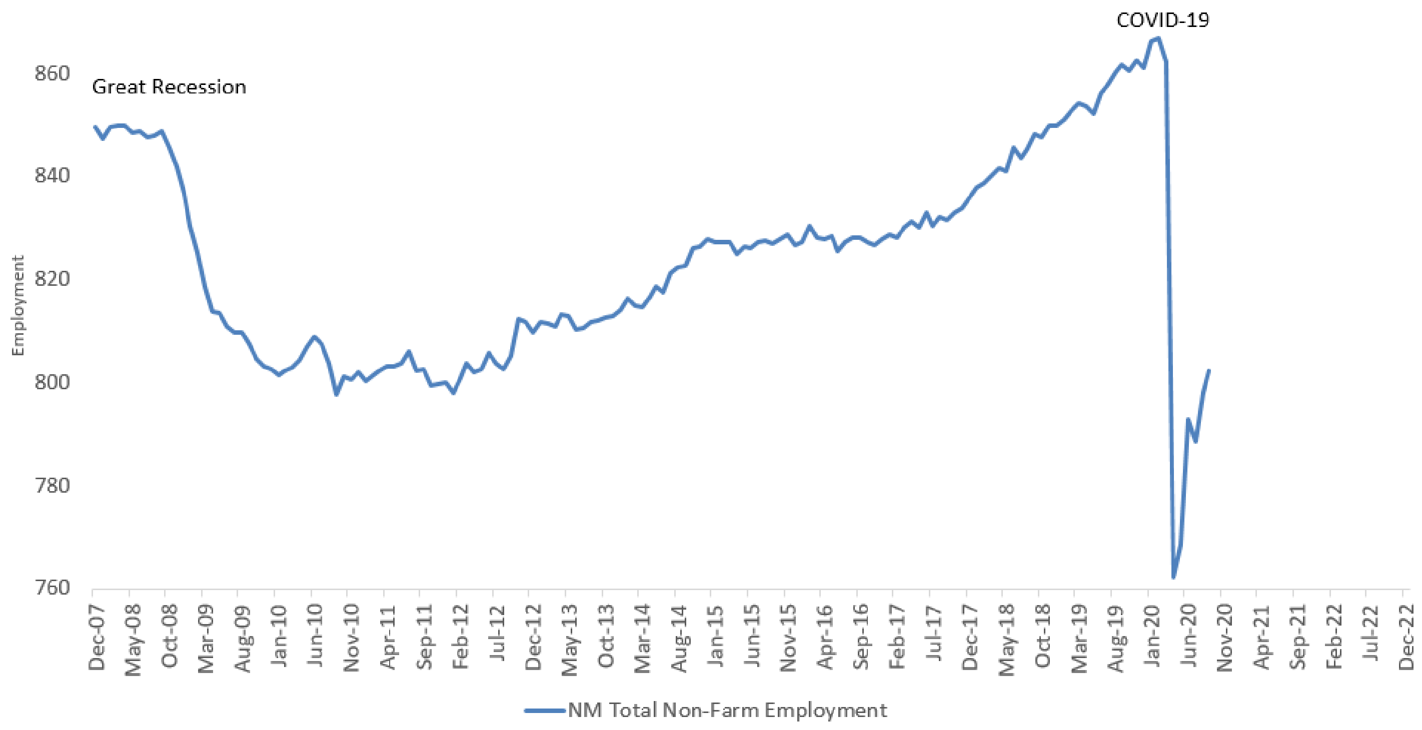
Labor Market



- New Mexico lost 104,000 jobs at the onset of the pandemic. So far, 40,100 of those have been regained
- New Mexico is expected to reach pre-pandemic employment by 2026
- The national unemployment rate declined from 7.9% in September to 6.9% in October.
- New Mexico’s unemployment declined from 11.3% in August to 9.4% in September.

Labor Market

New Mexico's Monthly Total Non-Farm Employment Dec. 2007 to Sept. 2020

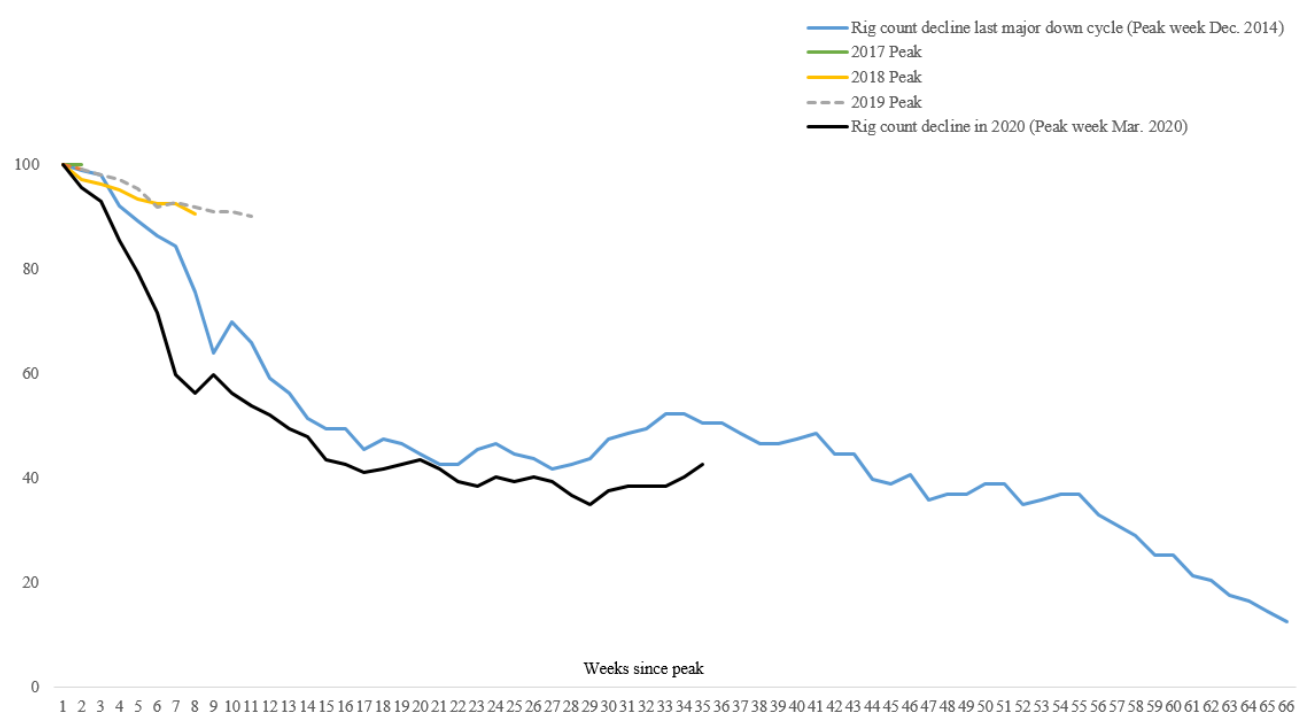


Source: www.bls.gov, seasonally adjusted

- New Mexico UI claims were relatively stable prior to COVID-19. However, initial claims increased sharply in mid-March and peaked in April at 27,849 initial claims for UI.
- Continued claims have remained elevated since the pandemic began. Standard continued claims peaked at 105,568 in May and have declined to 73,193.
- The CARES Act created a new temporary federal program. The Federal Pandemic Unemployment Assistance program (PUA).
  - The PUA claims provides UI benefits to individuals who normally would not qualify for UI benefits.
  - PUA continued claims peaked at 83,986 at the end of July. PUA claims have decreased to 32,369 since then.
- New Mexico unemployment rate in August was 11.3% and has decreased to 9.4% in September.
- New Mexico lost 104,000 jobs at the onset of the pandemic. So far, from April to September the state has regained 40,100 of those lost jobs.
- The sectors most severely impacted have been the Leisure & Hospitality and Mining sectors.
  - In September on a year-over-year basis the Leisure & Hospitality sector is down.

New Mexico Energy Markets

New Mexico Oil Drilling Rig Count, speed of decline in 2020 vs. previous down cycles

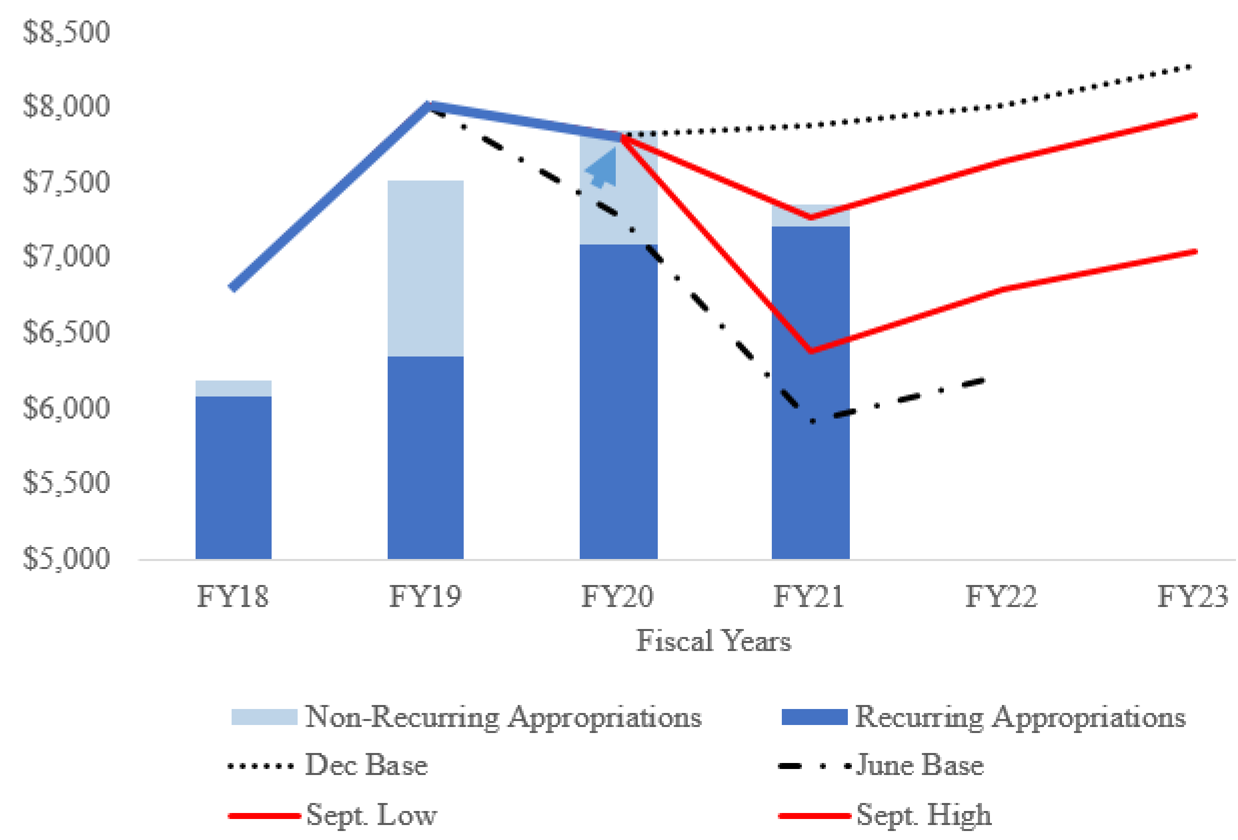


Source: Baker Hughes Rig Count Summary
Note: Peak week is week 1, All peak weeks indexed to 100

- Previous major down cycle began on December 19th, 2014 and ended on March 18th , 2016.
  - From peak to a bottoming out the rig count decline lasted 65 weeks.
  - NM rigs declined from 103 to 13 rigs.
- In 2020, NM rig counts peaked at 117 in March and have declined to 50 rigs in early November.
  - The NM rig count declined for 28 weeks in 2020 and in the last couple of weeks it seems to have stabilized in the 40s and reaching 50 rigs in the first week of November.
  - When compared to the previous major rig count decline, the 2020 rig count has declined faster and lasted half as long.
- New Mexico oil prices are tracking higher than the CREG's June consensus forecast. Updated oil price estimates show New Mexico oil prices closing FY21 at just over $40/barrel.
- Oil prices are inherently volatile. Oil prices are dependent on demand recovery, OPEC+ decisions, inventory builds/drawdowns, and other factors.
- It is unlikely we will see substantial increases in rig counts while oil is in the low $40s/barrel.

CREG Forecast Range

General Fund Recurring Revenue Forecast Range FY21 to FY23



Source: DFA, TRD, CREG (in millions)

September 2020 Forecast compared to the June 2020 and December 2019				
Forecast	**FY20**	**FY21**	**FY22**	**FY23**
December 2019 Base	$ 7,776.4	$ 7,882.5	$ 8,015.2	$ 8,297.1
September 2020 High	$ 7,818.4	$ 7,272.8	$ 7,638.4	$ 7,951.6
September 2020 Low	$ 7,818.4	$ 6,377.2	$ 6,793.4	$ 7,045.8
June 2020 Base	$ 7,284.3	$ 5,916.6	$ 6,220.6	

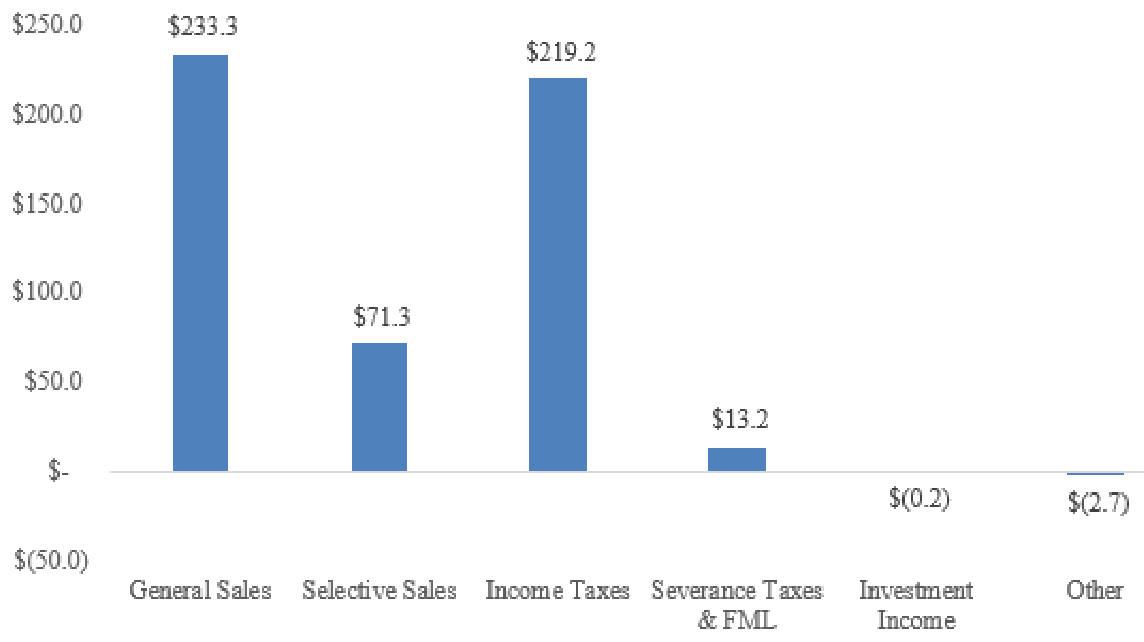
September 2020 Forecast Difference from the June 2020 Forecast				
Forecast	**FY20**	**FY21**	**FY22**	**FY23**
September 2020 High	$ 534.1	$ 1,356.2	$ 1,417.8	
September 2020 Low	$ 534.1	$ 460.6	$ 572.8	

September 2020 Forecast Difference from the December 2019 Forecast				
Forecast	**FY20**	**FY21**	**FY22**	**FY23**
September 2020 High	$ 42.0	$ (609.7)	$ (376.8)	$ (345.5)
September 2020 Low	$ 42.0	$ (1,505.3)	$ (1,221.8)	$ (1,251.3)

- The CREG's forecast range is higher than the forecast in June 2020 but lower than the forecast from December 2019.

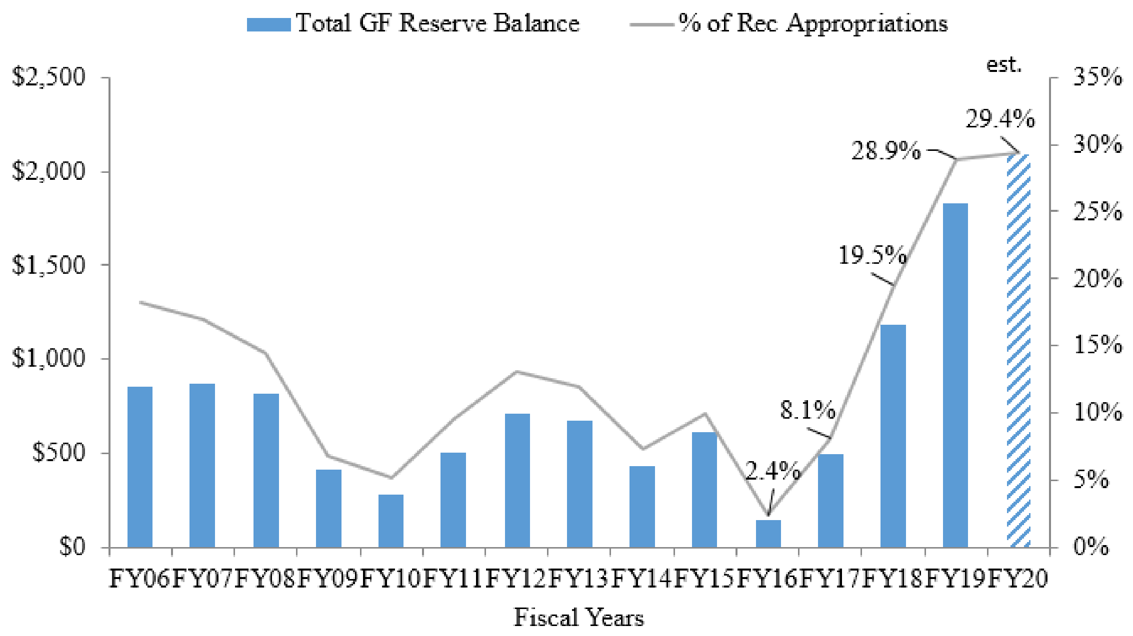
FY20 Revenue and General Fund Reserves

General Fund Recurring Revenue Variance from June Forecast



Source: DFA, TRD

General Fund Reserve Balances as a Percent of Recurring Appropriations



Source: DFA, FCD, CREG

- FY20 revenue tracking and preliminary data indicate revenues are tracking over $500 million above the June estimate with the bulk of FY20 the revenue strength is from GRT and PIT.
- FY20 ending general fund reserves are expected to be $2.1 billion, or 29.4% of recurring appropriations.

Major Causes of Uncertainty in Revenues

- COVID-19 pandemic uncertainty.
  - Unknown changing consumer and business behavior.
  - Unknown when a vaccine will be available and how much will be available.
  - Employment recovery will vary with employers expectations to economic recovery, COVID-19, and fiscal stimulus.
- Direction of additional federal stimulus legislation.
  - Unknown when and if an agreement for an additional stimulus bill will be reached.
  - The later another round of stimulus agreement is reached the less effective it is on stimulating the recovery (Moody's Analytics).
  - The form and scale of the stimulus agreement.
- Oil demand and supply.
  - Uncertainties in regard to demand are closely tied to COVID-19 path.
    - Consumer and business behavior.
    - Transportation sector.
  - Oil supply dependent on OPEC actions.
    - More coordinated actions on supply which are often unknown or unexpected.