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FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Sariñana	**ORIGINAL DATE**	1/21/25
SHORT TITLE	Prohibit New Emissions in High Ozone Counties	**BILL NUMBER**	House Bill 33
		ANALYST	Davidson/Torres

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Oil and Gas Severance Tax		($12,940.0)	($28,260.0)	($81,810.0)	($106,100.0)	Recurring	Severance Tax Bonding Fund
Severance Tax Bonding Capacity		($12,940.0)	($28,260.0)	($81,810.0)	($106,100.0)	Recurring	Capital Outlay
Oil and Gas Emergency School Tax		($11,230.0)	($22,330.0)	($63,900.0)	($70,900.0)	Recurring	Early Childhood Trust Fund
Oil and Gas Emergency School Tax			($2,250.0)	($7,250.0)	($21,390.0)	Recurring	Severance Tax Permanent Fund
Oil and Gas Conservation Tax		($130.0)	($280.0)	($820.0)	($1,060.0)	Recurring	Oil Reclamation Fund
Oil and Gas Conservation Tax		($530.0)	($1,150.0)	($3,330.0)	($4,320.0)	Recurring	General Fund
Oil and Gas Ad Valorem Production Tax	Dependent on local property tax rates					Recurring	Local Governments/ General Obligation Bonds
Oil and Gas Ad Valorem Equipment Tax	Dependent on local property tax rates					Recurring	Local Governments/ General Obligation Bonds
State Land Office Rental and Bonus Income*	Negative					Recurring	General Fund
State Land Office Royalty Payments*		($7,980.0)	($17,610.0)	($50,900.0)	($66,090.0)	Recurring	Land Grant Permanent Fund
Federal Land Rental and Bonus Income	Negative					Recurring	General Fund
Federal Land Royalty Payments		($23,750.0)	($47,220.0)	($73,050.0)	($149,840.0)	Recurring	Early Childhood Trust Fund

Federal Land Royalty Payments			($4,750.0)	($77,340.0)	($45,220.0)	Recurring	Severance Tax Permanent Fund
Investment Income Distributions from Permanent Funds		Minimal losses				Recurring	General Fund
Gross Receipts Tax		($7,230.0)	($16,220.0)	($46,330.0)	($59,590.0)	Recurring	General Fund
Personal Income Tax		($17,350.0)	($17,560.0)	($17,840.0)	($17,800.0)	Recurring	General Fund
Gross Receipts Tax		($560.0)	($1,250.0)	($3,560.0)	($4,580.0)	Recurring	Local Governments

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
NMED	No fiscal impact	Up to $1,530	Up to $1,830	Up to $3,360	Recurring	**Other state funds**
Total	No fiscal impact	Up to $1,530	Up to $1,830	Up to $3,360	Recurring	**Other state funds**

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
Environment Department
State Land Office
Attorney General

<u>Agency Analysis was Solicited but Not Received From</u>
Tax and Revenue Department

<u>Agency Declined to Respond</u>
Energy, Minerals and Natural Resources Department

SUMMARY

Synopsis of House Bill 33

House Bill 33 proposes a new section to the Air Quality Control Act requiring the Department of Environment or an administrative agency established by a local authority to prohibit the construction of new sources of emissions related to oil and gas production in counties where the ozone concentrations exceed national ozone air quality standards.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

Analysis from the Environment Department (NMED) noted House Bill 33's prohibition on new production would affect permit fees the Air Quality Bureau (AQB) collects and deposits in the air quality permit fund, which the bureau uses for operations. The agency analysis projects the severing of up to 300 oil and gas permits in FY26 could decrease the projected revenue of permits by $1.5 million. The agency also notes 350 new permits scheduled for FY27 could also decrease permit revenue for AQB by up to $1.8 million.

To estimate the potential losses in state revenues from the prohibition of oil and gas permits in nonattainment zones, the number of new permits estimated to be prohibited was equated to a production site, though losses could be greater or less than this assumption based on the type of facility being permitted. Lost revenues were then computed based on the number of prohibited permits, average volumes produced, and the December 2024 consensus revenue estimating group forecast for energy prices. The estimates for prohibited permits are from NMED based on the current counties exceeding the National Ambient Air Quality Standard (NAAQS), which are Doña Ana, Eddy, and Lea. The prohibition is estimated to negate 300 new oil and gas permits in FY26 and 350 permits in FY27, which is held flat in the remaining forecast period. Further, the permits were applied to existing permitted but not yet producing sites to determine a potential proportion of impacted production. Finally, the current proportions of production by land type were used to estimate losses in royalty revenue.

SIGNIFICANT ISSUES

Air quality monitoring for New Mexico is conducted by AQB, which uses 20 different monitoring sites that track either fine or larger particulate matter, ozone, and sulfur dioxide. The location of these sites is determined by a network plan made by state and federal officials, and the majority (nine of the 20) of New Mexico's monitoring sites are in the Las Cruces area. In the state's largest oil and gas producing regions, the current network plan only has one monitoring site in Lea County, one in Eddy County, and three in Doña Ana County.

According to reports from the U.S Environmental Protection Agency's Scientific Advisory Committee, Eddy, Lea, and Doña Ana counties all are above the National Ambient Air Quality Standards (NAAQS) ozone level of 70 parts per billion. NMED analysis notes specifically determining the cause or contribution to the exceedance of NAAQS would require an expanded AQB to be able divide what is New Mexico's versus Texas's, due to the proximity of Texas's Permian Basin oil production and the consistent movement of pollution from Texas to New Mexico.

House Bill 33 tasks "the department and a local agency" with prohibiting the construction of "a new source relating to oil and gas production" in counties that have been found to exceed the "national ambient air quality" standards. The bill places the responsibility of determining if new oil and gas production would "cause or contribute" with the Environmental Improvement Board (EIB) or a local agency. Analysis from the NMED indicates determinations on air quality or ozone levels or declaration of a county being beyond national ambient air quality standards fall into the jurisdiction of AQB.
NMED's analysis further notes the bill could potentially require the Oil Conservation Division of the Energy, Minerals, and Natural Resources Department to add to its workload, requirements

already handled by NMED's AQB. The agency suggested amending eight sections of the bill to avoid this issue.

If the bill were to pass, it would stop production in each of New Mexico's largest oil producing regions, with substantial impact on the state's severance tax revenue.

State Land Office analysis also notes possible large impacts on its revenue, with nearly 35 percent of statewide oil and gas production taking place on state trust land. House Bill 33 could also impact royalties to the land grant permanent fund and distributions to the land maintenance fund

PERFORMANCE IMPLICATIONS

The bill has the potential to increase the administrative work of AQB with its new requirements of prohibiting new production, increasing the workload of a bureau that already contracts out a significant portion of its function due to requirement and retention issues.

Efforts to address this in FY26 by a proposed new division of NMED called the Compliance and Enforcement Division would help to streamline the functions of AQB. However, the bill would still increase the workload of both the new division and AQB, with the possibility of impeding both divisions' ability to process permits and enforce them.

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