



New Mexico State Land Office

Raising the Rate: More Money for New Mexico's School Kids

ECONOMIC AND RURAL DEVELOPMENT AND POLICY COMMITTEE

August 21, 2024

**Stephanie Garcia Richard
Commissioner of Public Lands**

The New Mexico State Land Office

OVERVIEW

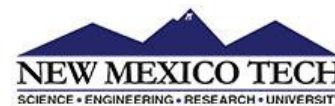
About the New Mexico State Land Office

- The State Land Office's mission is to care for 9 million surface acres and 13 million mineral acres of state trust land and earn money for New Mexico's public schools and other institutions.
- Since 2019, the State Land Office has earned over \$10 billion for our beneficiaries.

Some of Our Beneficiary Institutions



New Mexico Children,
Youth & Families Department



Beneficiary Land & Earning Allocations

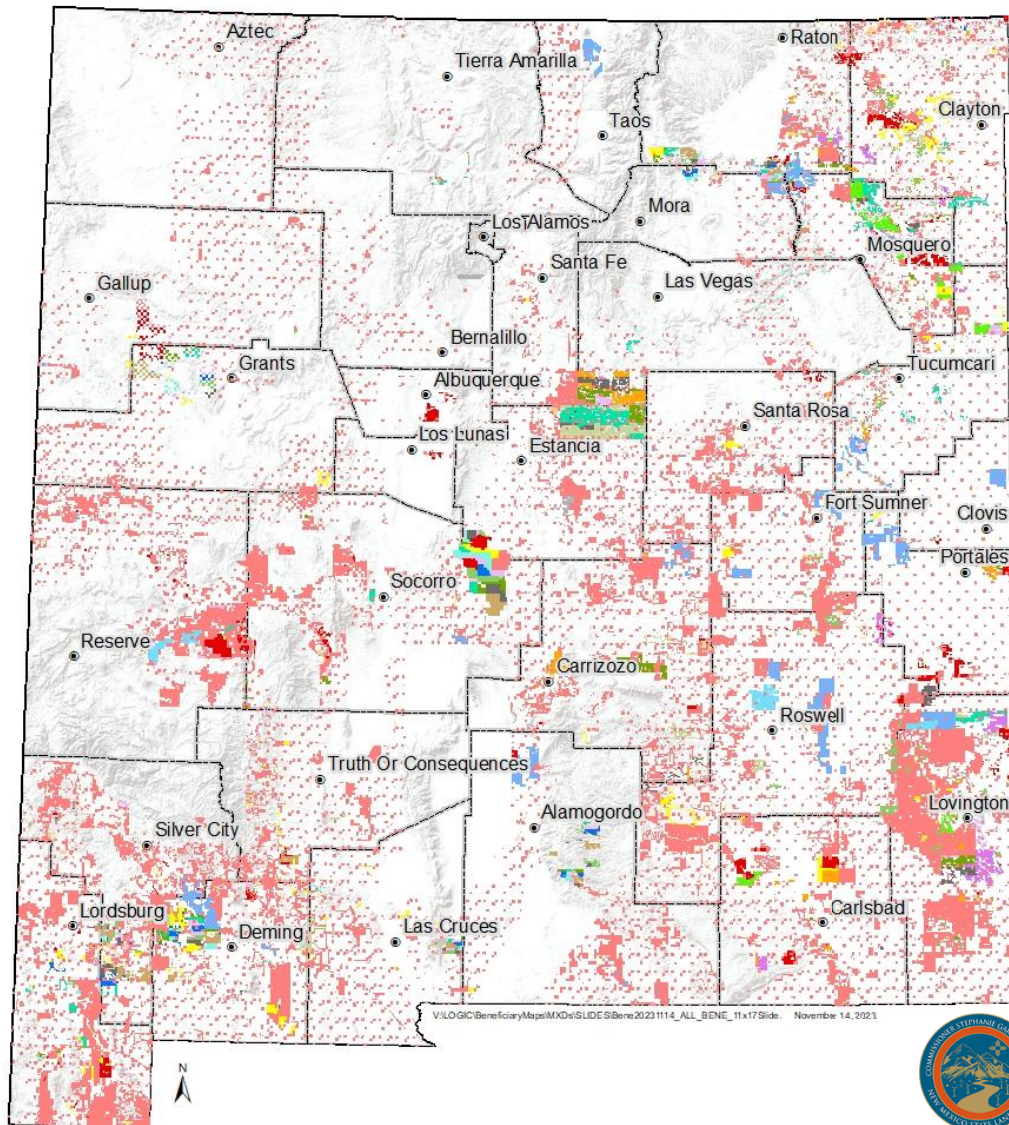
Beneficiary Land/Earning Allocations

- Public Land Survey System: Townships (36 square miles) are divided into sections (1 square mile/640 acres)
- Each beneficiary is assigned specific sections of land (e.g., 2, 16, 32, 36) and the money derived from those sections goes to each corresponding beneficiary
- There are a total of 21 state land trust beneficiaries, primarily schools, universities and hospitals
- Revenue that involves a permanent depletion of a resource (oil and gas royalties, land sales, etc.) is transferred to the State Investment Council (**Land Grant Permanent Fund**), where it is invested prior to distribution to the beneficiaries
- Revenue from “renewable” resources (renewable energy, agriculture, rights-of-way, business leases, etc.) is distributed on a monthly basis to the beneficiaries via the **Land Maintenance Fund**
 - State Land Office expenses paid prior to distribution
 - 1% withholding for Restoration and Remediation Fund

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Township = 36 Sections/ Section = 1 square mile

State Lands Assigned to Beneficiaries



New Mexico Land Trust Beneficiaries

- Common Schools
- Charitable, Penal and Reform
- Carrie Tingley Hospital
- Eastern New Mexico University
- Improvements to the Rio Grande
- New Mexico Miners Hospital
- New Mexico Military Institute
- New Mexico Boys School
- Northern New Mexico College
- New Mexico Highlands University
- New Mexico Institute of Mining Technology
- New Mexico Penitentiary
- New Mexico State Hospital
- New Mexico State University
- New Mexico School for the Deaf
- New Mexico Schools for the Deaf / Blind and Visually Impaired
- New Mexico School for the Blind and Visually Impaired
- Public Buildings
- University of New Mexico
- Water Reservoirs
- Western New Mexico University
- Western New Mexico University/New Mexico Highlands University



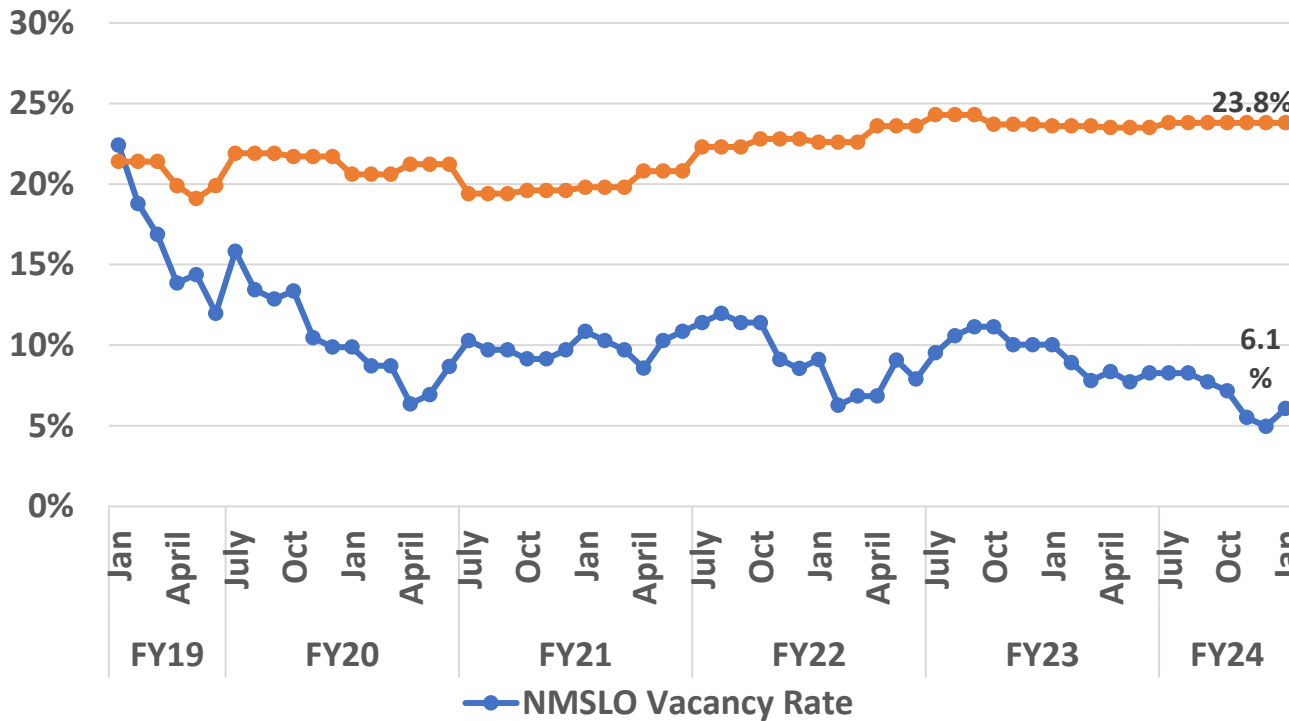
The New Mexico State Land Office

OUR TEAM

Top Workplace = Low Vacancy Rates

NMSLO v. Statewide Vacancy Rate

Consistently Maintain Low Rate with Full S&B Utilization



Total FTE Positions	181.5
Filled	170.5
Vacant	11
Vacancy Rate	6.06%

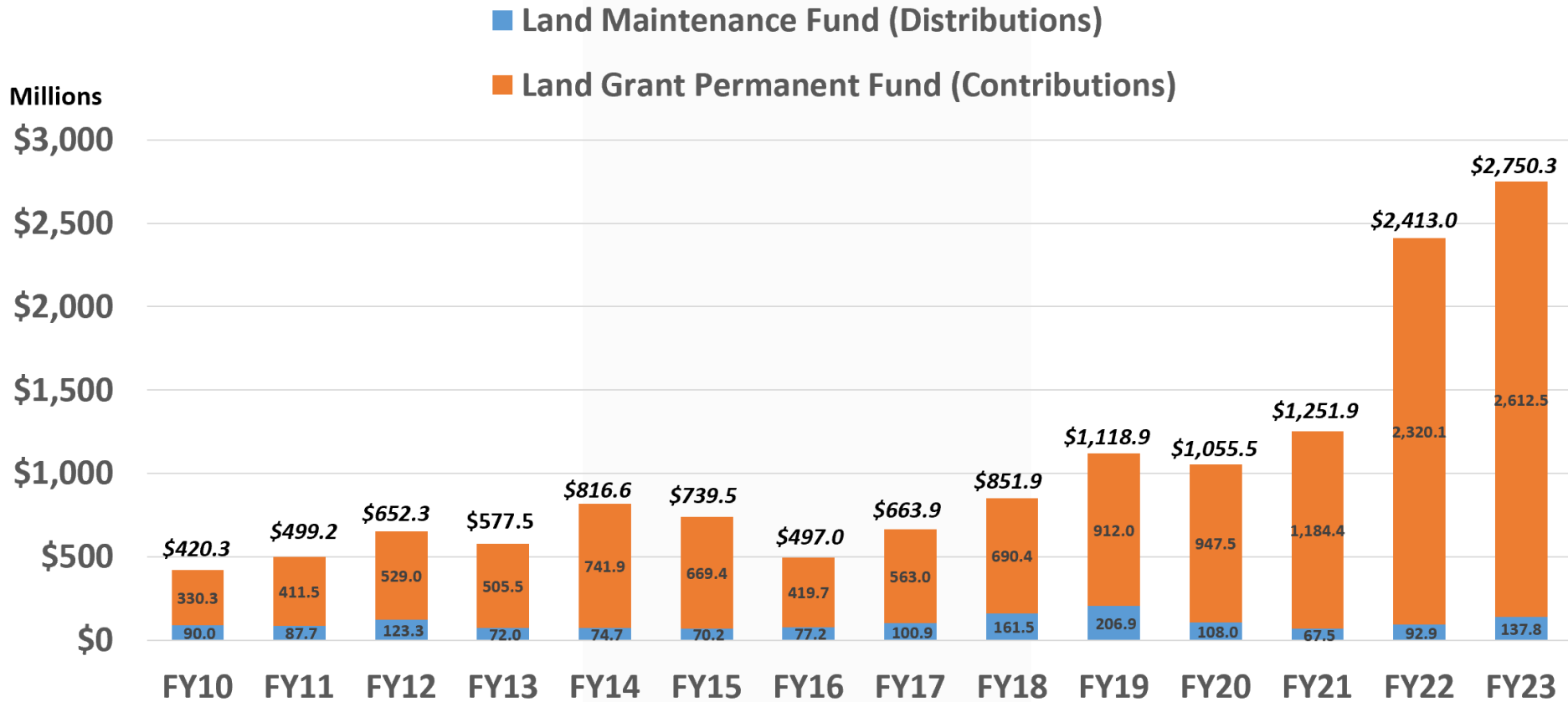
As of 1/16/24

The New Mexico State Land Office

RECORD EARNINGS

State Trust Lands' Earnings

State Land Office Annual Earnings by Fund



The New Mexico State Land Office

HISTORIC CLEANUPS

Compliance

Remediation and Reclamation Efforts



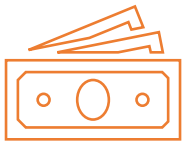
Created a New Environmental Compliance Office

- Secured three new Environmental Specialist positions in the 2022 legislative session
- Stepped-up remediation & reclamation expertise & activities



Accountability & Enforcement Program

- Over 500 abandoned oil and gas wells plugged at the expense of the companies responsible
- Over \$50 million saved for New Mexico's taxpayers in cleanup costs
- 30 lawsuits filed against operators for failure to comply



Bonding

- Ensure all leases are bonded
- Protect taxpayers and land trust beneficiaries

Compliance

The Big Picture/Challenge



Compliance

On the Ground Example

Sanmal Queen Unit: Smith & Marris / MMCP Leasing Lawsuit



The New Mexico State Land Office

**OUR FUTURE:
25% ROYALTY RATE**

2025 Royalty Rate Legislation

WHAT: In the 2025 legislative session the State Land Office will seek to increase its maximum-allowable royalty rate on NEW oil and gas leases from 20% to 25%.

- Existing leases will not be affected. Only new ones.
- Bidding on leases is completely voluntary. Never obligatory.
- Not all new leases will be at 25%--only the best tracts.

WHEN: This legislation passed the House this year but it died in the Senate. This was our 3rd attempt in six years to pass this legislation. New Mexico's maximum royalty rate has not changed since the 1970s.

2025 Royalty Rate Legislation

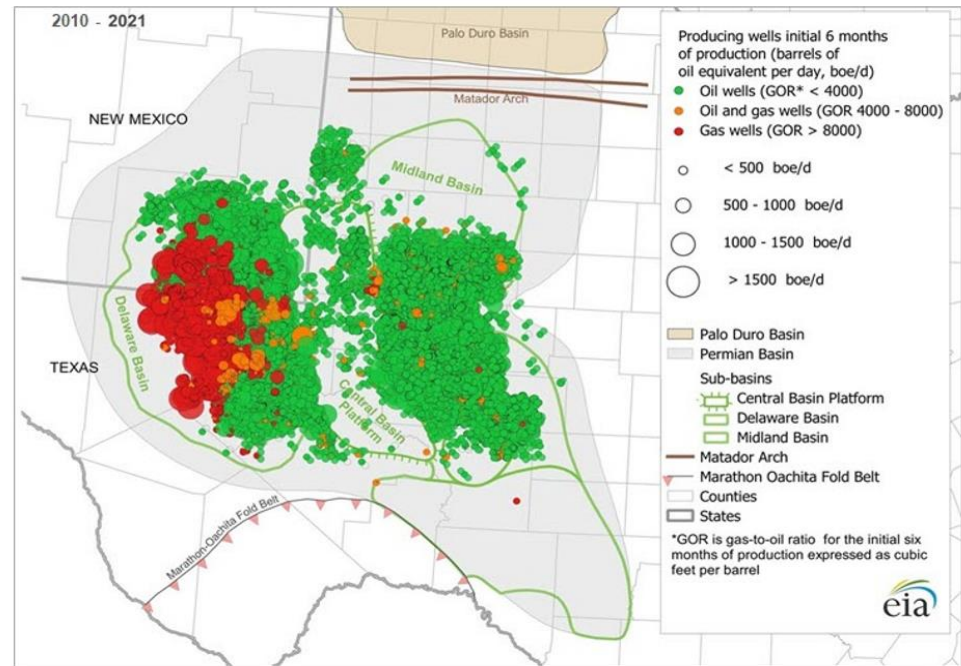
WHY: A 25% royalty rate means an additional \$1 billion in revenue to our school kids and other beneficiaries in the coming decades, per last year's FIR.

- Oil and gas companies are getting a sweetheart deal in New Mexico: just across the state line, Texas has a 25% royalty rate on its state lands.
- And in NM, in the private market, 25% is not uncommon. Our school kids and beneficiaries deserve no less.
- New Mexico has the best “rock,” the best oil resource in the Permian, which is one of the best shale plays globally. Let me show you.

The Permian Basin

- New Mexico is the second-largest crude oil-producing state after Texas. In 2022, NM accounted for more than 13% of total U.S. crude oil production.
- The Permian Basin, which spans western Texas and southeastern New Mexico (61,763 square miles), represents the largest oil-producing region in the U.S. and one of the best oil reservoirs in the world. The Delaware Basin and Midland Basin (parts of the greater Permian Basin) contain multiple stacked shale formations.
- Horizontal wells in Lea and Eddy counties drove much of the recent oil crude growth in Permian Basin. Horizontal wells in the two counties accounted for 29% of all crude oil production in the Permian Basin in the first quarter of 2023, averaging 1.7 million barrels per day (b/d), according to data from Enverus.

Horizontal Wells Installed in the Permian (2010-2021)

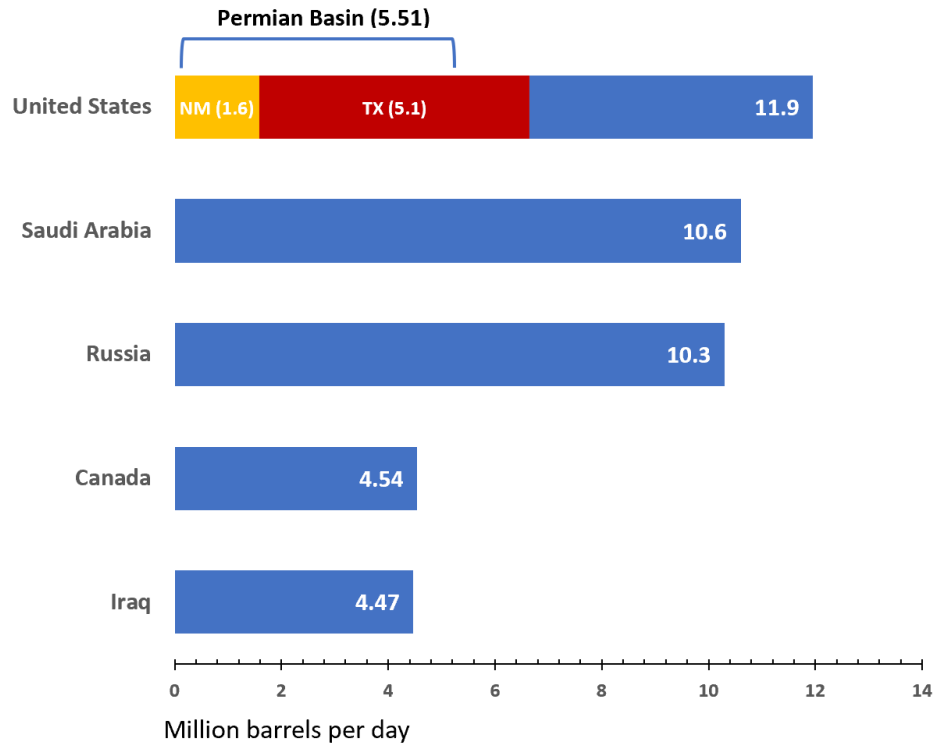


The Permian Basin

Top Five World Oil Producers

2022 Crude Oil Production - U.S. EIA

55% of U.S. oil production comes from TX/NM; about 46% comes from the Permian Basin.

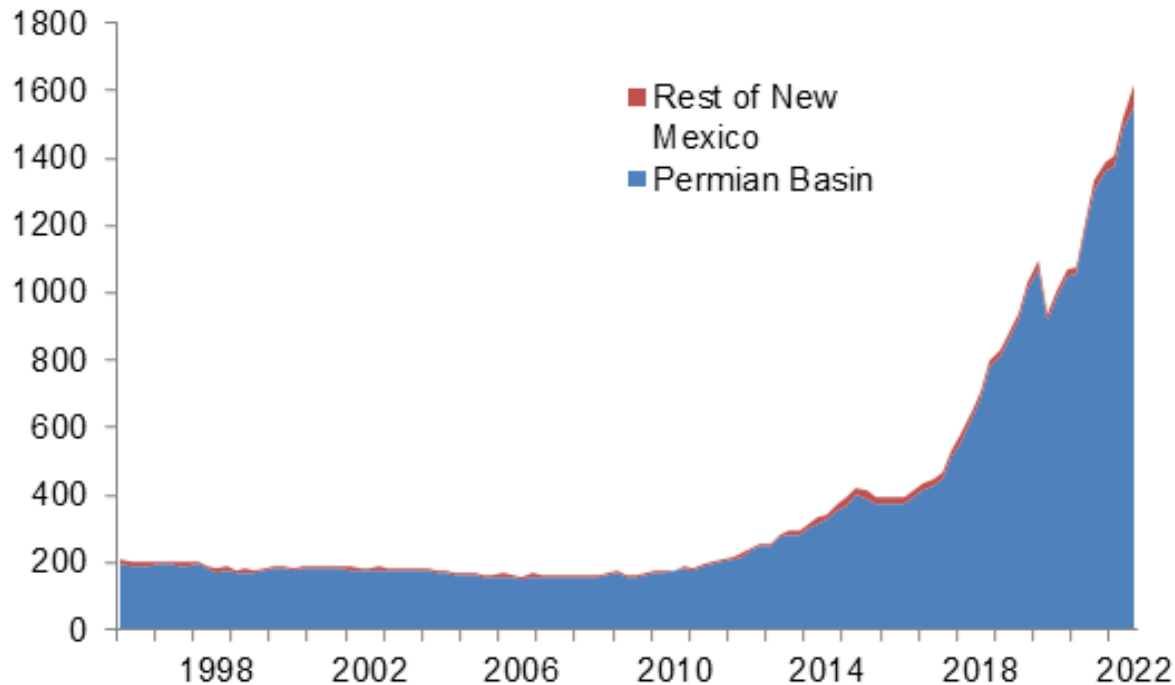


The Permian Basin

Almost All Oil Production in NM Comes From the Permian Basin

New Mexico Oil Production in Permian Basin and Rest of State

Thousands of barrels per day, quarterly



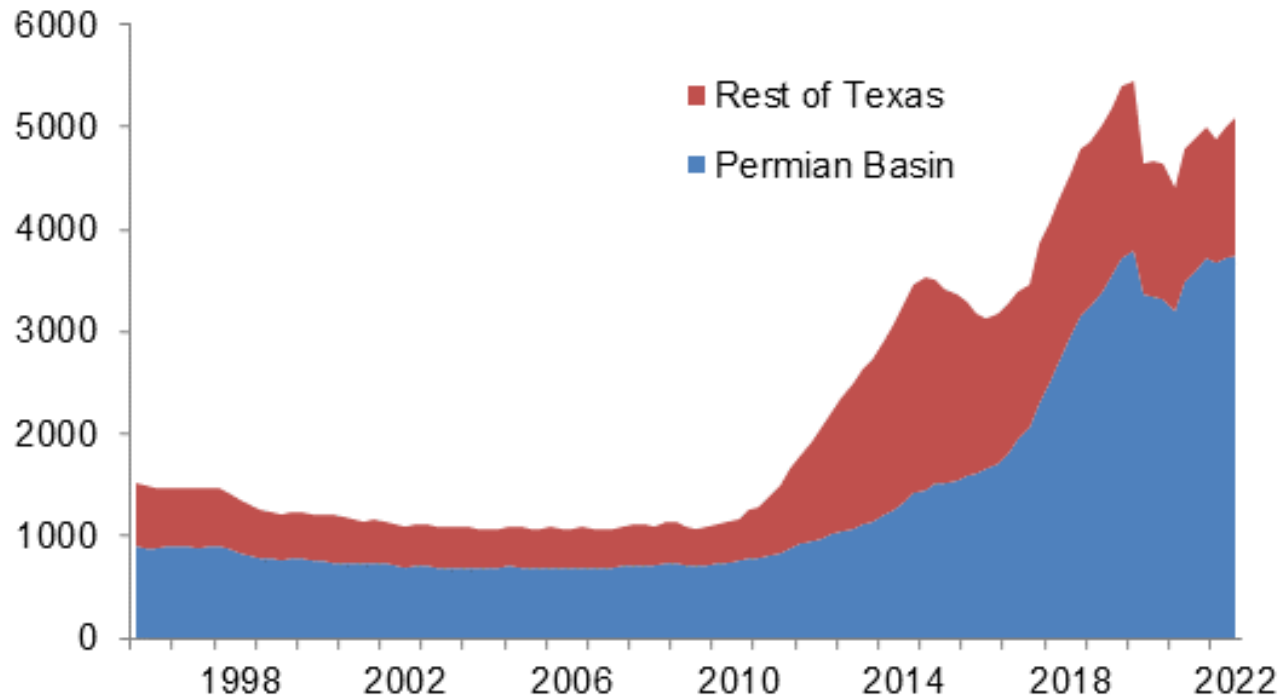
SOURCE: Oil Conservation Division of New Mexico; Energy Information Administration.

The Permian Basin

The Permian Basin Drives Texas Oil Production

Texas Oil Production in Permian Basin and Rest of State

Thousands of barrels per day, quarterly



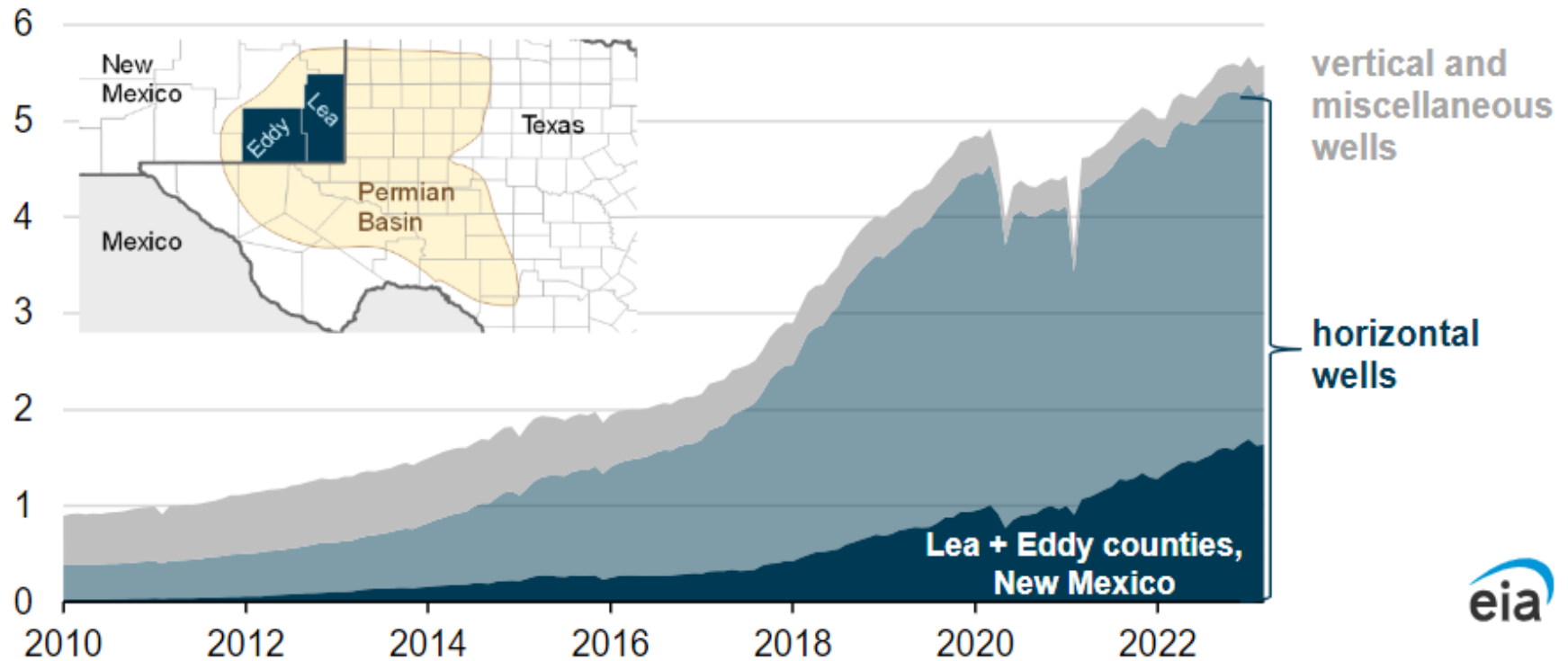
SOURCES: Railroad Commission of Texas; Energy Information Administration; Oil Conservation Division of New Mexico; calculations by Federal Reserve Bank of Dallas.

The Permian Basin

Two counties in New Mexico account for 29% of Permian Basin crude oil production

Monthly Permian Basin crude oil production by well type (Jan 2010–Mar 2023)

million barrels per day



Data source: U.S. Energy Information Administration and Enverus

The Permian Basin

NM Production Growing Faster than TX for Past 3 Years

NEW YORK, May 18 (Reuters) - New Mexico's crude oil production grew more last year than any other U.S. state, including top producer Texas, and accounted for half the nation's overall gain, signaling its importance in expanding U.S. oil output.

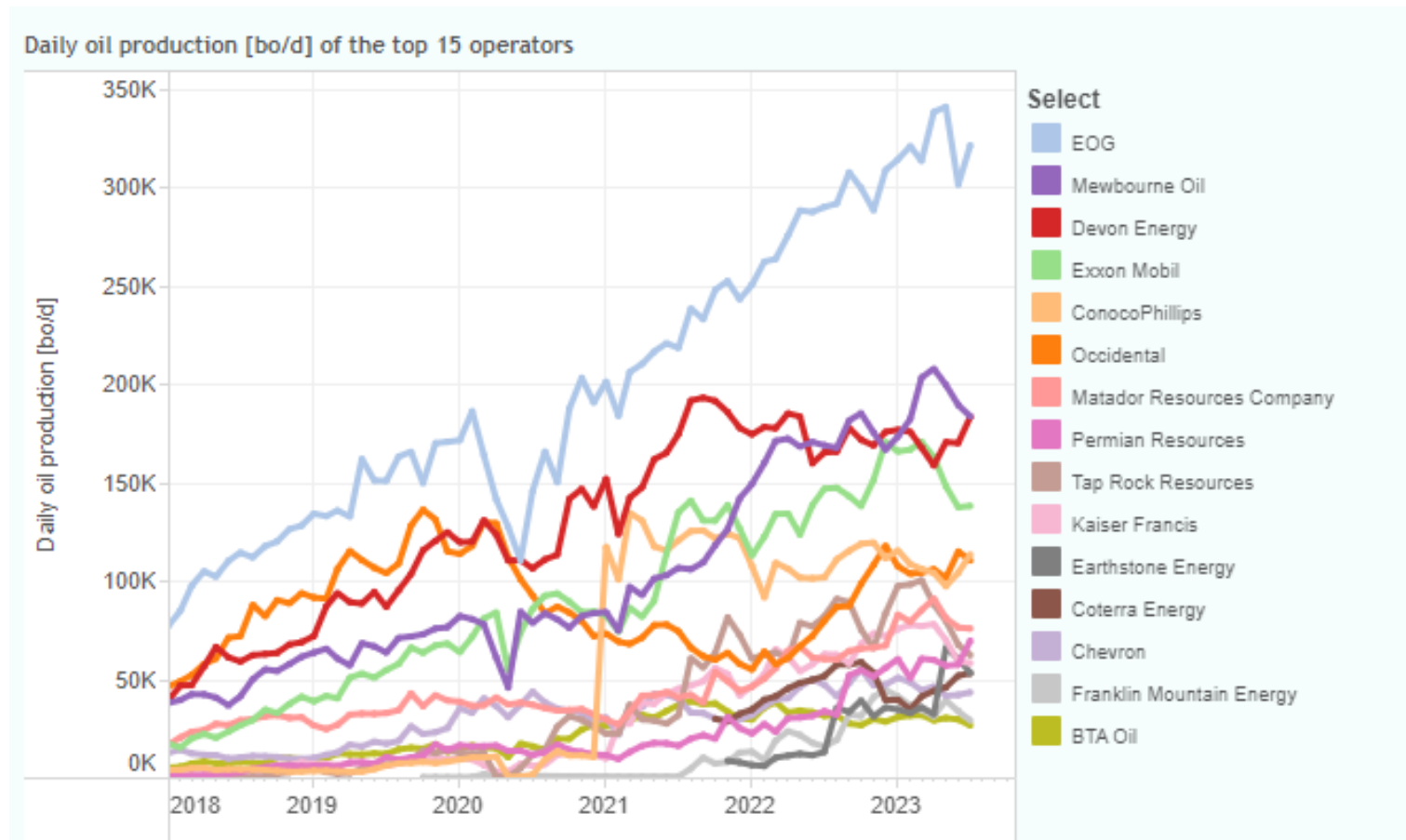
The state's production rose by a record 300,000 barrels per day (bpd) in 2022, to 1.6 million bpd, the U.S. Energy Information Administration said on Thursday. It was the third consecutive year that New Mexico's increase outpaced other states.

Overall U.S. crude oil production grew by 600,000 bpd in 2022, averaging 11.9 million bpd, the EIA said.

"New Mexico is like the new frontier, and there's a lot of upside potential," said Phil Flynn, an energy analyst at Price Futures Group. "Some people argue that some of (Texas's) best wells have been drilled."

The Permian Basin

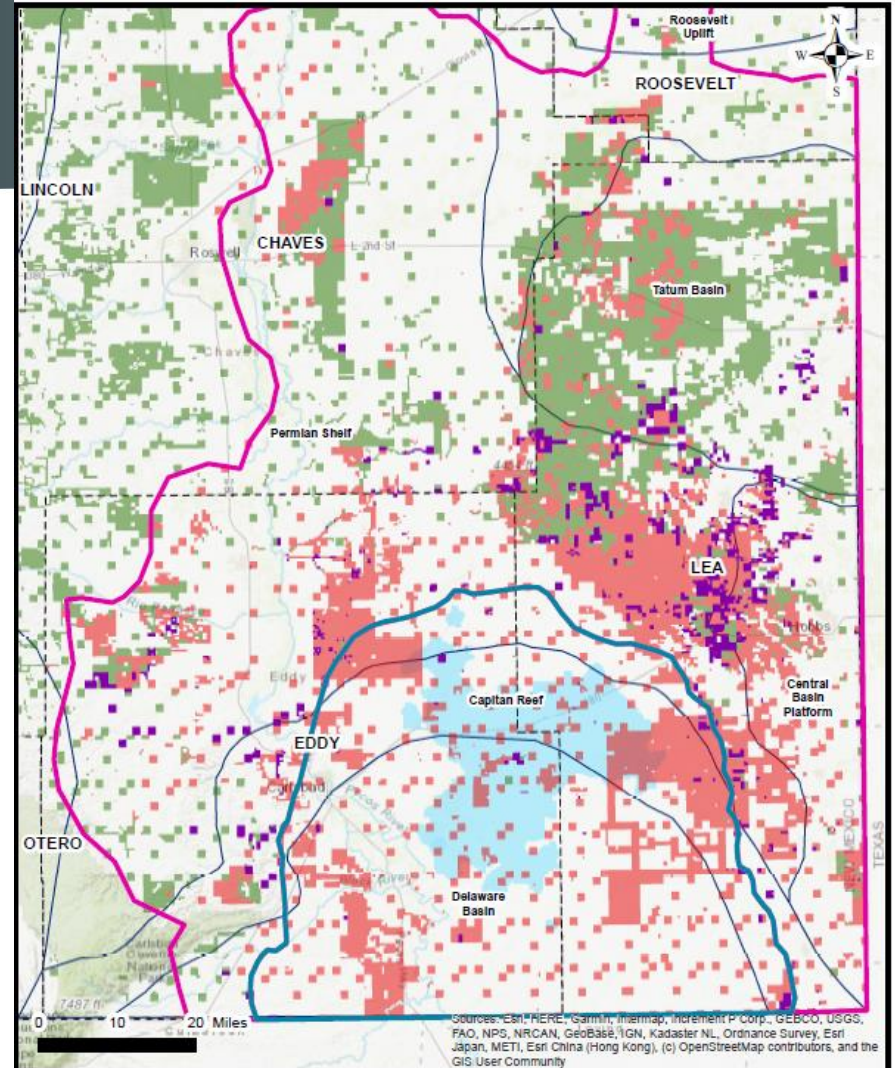
Top Permian Oil Producers in NM



The Permian Basin

Scarce Inventory of
Top-Tier Permian
Basin Parcels +
High Market Demand

Southeast Restricted District Production Zones, Offered Tracts from 1/2019-6/2023, and Open vs. Leased Lands



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Legend

- County Boundaries
- Geologic Regions
- High Production Zones
- Other Production Zones
- Offered Tracts from 1/2019-6/2023
- Open Lands as of 5/2023
- Oil and Gas Leases
- Potash Outline

High Production Zones: 99.2% Leased
Other Production Zones: 47% Leased

2025 Royalty Rate Legislation

FAQ – What about other costs to industry compared to Texas?

When comparing effective tax rates across states, New Mexico lies in the middle, roughly the same as Texas.

Based on an LFC Study in 2016 of severance, production and property taxes paid
in ratio to taxable valuation of production

State	Property Tax (Y/N)	Taxable Value (in billions)	Tax Collected (in millions)	Effective Tax Rate
Oklahoma	NO	\$11.236	\$364.9	3.2%
Idaho	YES	\$0.003	\$0.1	4.0%
Utah (1)	YES	\$1.625	\$99.0	6.1%
Texas (1)	YES	\$53.491	\$4,458.1	8.3%
New Mexico (2)	YES	\$6.841	\$584.4	8.5%
North Dakota	NO	\$14.958	\$1,404.8	9.4%
Montana	YES	\$0.919	\$91.1	9.9%
Alaska	YES	\$5.456	\$653.8	12.0%
Louisiana	YES	\$5.062	\$671.2	13.3%
Wyoming	YES	\$6.173	\$827.6	13.4%
Unweighted average rate				8.8%

(1) Utah and Texas assess an ad valorem property tax on the market value of mineral reserves, and this tax is assessed every year on the remaining value of the reserves.

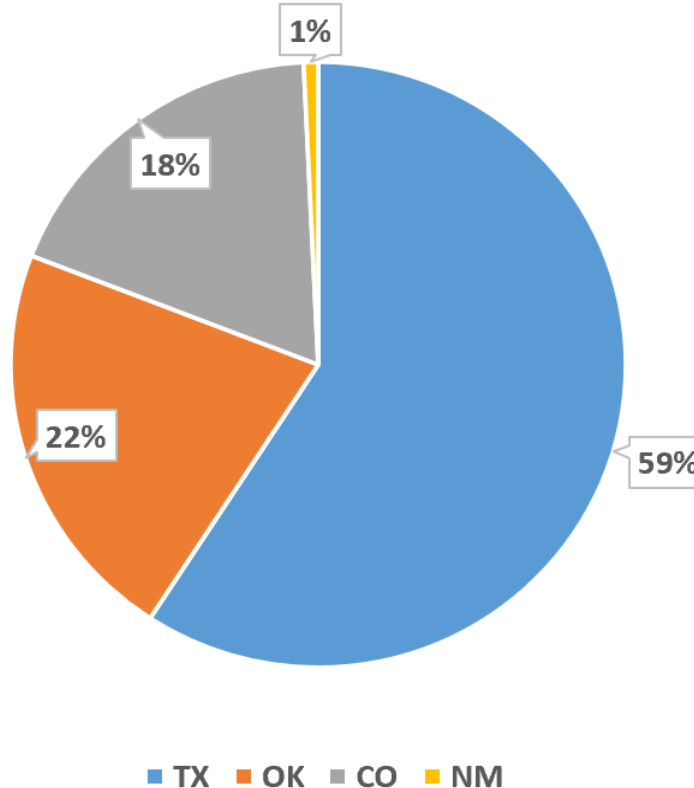
(2) New Mexico was NOT included in this study; however, LFC staff used similar methodology to calculate the effective tax rate and included NM for reference only. New Mexico assesses an ad valorem tax on production and equipment in lieu of property tax.



2025 Royalty Rate Legislation

FAQ – Will we out price NM and small firms?

No, Land Office royalties are paid primarily by out-of-state companies. 99% of \$2.6 billion in royalties paid in FY23 were from companies registered in Texas, Oklahoma, and Colorado. NM companies paid less than \$20 million.



Since 2019, YOUR State Land Office has earned

\$10+ BILLION for our schools!

New Mexico Commissioner of Public Lands Stephanie Garcia Richard



Questions?

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