

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 15, 2025

Bill: HB-403

Sponsor: Representatives Mark B. Murphy, Meredith A. Dixon, Rod Montoya, Elaine Sena Cortez and Johnathan A. Henry

Short Title: Oil & Gas Fund Distribution & Uses

Description: This bill amends Section 7-1-6.21 NMSA 1978 to distribute the Oil and Gas Conservation Tax to the Oil and Gas Reclamation Fund. It also amends Section 70-2-38 NMSA 1978 to require that the greater of \$40 million or 5 percent of the average of the year-end market values of the fund for the immediately preceding three calendar years be dedicated for surveying and plugging abandoned wells.

Effective Date: July 1, 2025

Taxation and Revenue Department Analyst: Lucinda Sydow

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	\$98.8	\$106	\$119	\$121.1	R	Oil and Gas Reclamation Fund
--	(\$98.8)	(\$106)	(\$119)	(\$121.1)	R	General Fund

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The bill distributes the Oil and Gas Conservation Tax to the Oil and Gas Reclamation Fund. Currently, the Reclamation Fund receives 10.53% of revenue if oil prices are below \$70 a barrel in the previous quarter and 19.7% of revenue if oil prices are above \$70 in the previous quarter. The Taxation and Revenue Department (Tax & Rev) shifted the current Consensus Revenue Estimating Group’s (CREG) December 2024 forecast for the Oil and Gas Conservation tax revenue from the General Fund to the Reclamation Fund.

Policy Issues: Directing all Oil and Gas Conservation Tax revenue to the reclamation fund is a supportable earmark. This fund helps support the cost of plugging and remediating abandoned wells, thus conserving land for future use, and this is a tax on oil and natural gas severance, which creates the need for this remediation work. However, this proposal would eliminate a recurring General Fund revenue source, reducing the legislature’s budgetary flexibility with respect to the broad appropriation needs of the State in future years. In FY24, the conservation tax contributed \$106.2 million to the General Fund, or approximately 0.8% of recurring General Fund revenue. While there is a relationship between the tax and the proposed use of the revenue, better tax policy is still to allow the legislature maximum flexibility to use revenues to address all the state’s needs.

This proposal simplifies the distribution of this tax revenue. Currently, Tax & Rev must adjust both the rate of the Oil and Gas Conservation Tax per 7-30-4 NMSA 1978 if the price of oil goes above or below \$70 a barrel and then adjust the distribution percentages to the Reclamation Fund and the General Fund any time the tax rate changes. This proposal eliminates the system changes for the distribution, keeping it fixed regardless of the volatility of oil prices.

Technical Issues: None.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev’s Administrative Services Division (ASD) will update the general ledger and revenue reporting. It is anticipated this work will take approximately 60 hours split between 2 FTE of a pay band 70 and a pay band 80 at a cost of approximately \$3,800. Collaboration and input from the Department of Finance and Administration (DFA) is required as this will decrease General Fund revenue distributions.

Implementing this bill will have a low impact on Tax & Rev’s Information Technology Division (ITD), approximately 150 hours or 1 month for an estimated \$34,500 of contractual costs.

In the long run, this bill proposal will save staff workload costs in ITD and ASD as the distribution percentage will remain fixed.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2025	FY2026	FY2027	3 Year Total Cost		
--	\$3.8	--	\$3.8	NR	ASD – Staff workload
\$34..5	--	--	\$34.5	NR	ITD – Contractual costs

* In thousands of dollars. Parentheses () indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).