



New Mexico State Land Office

Revenue Stabilization & Tax Policy Committee October 17, 2024

Sunalei Stewart
Deputy Commissioner of Operations

Agenda

- **State Land Trust Overview & Revenue Flow**
- **Diversification Efforts**
- **Oil and Gas Royalty Rate Legislation**
- **Questions?**



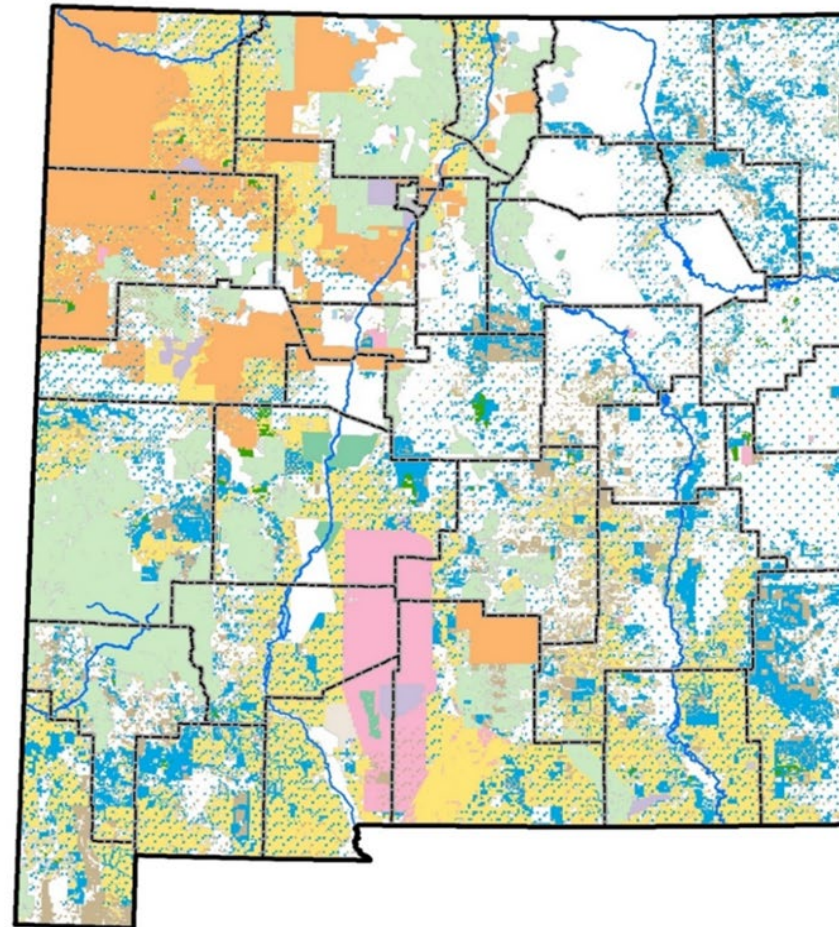
STATE LAND TRUST OVERVIEW AND REVENUE FLOW

State Land Trust Framework

- New Mexico was granted trust lands by the federal government for the specific purpose of using these working lands to support public institutions (Ferguson Act of 1898; Enabling Act of 1910)
- The Commissioner of Public Lands is the statewide elected executive officer of the State Land Office and is charged with the management, care, custody, control and disposition of trust lands (N.M. Const., Art. 13, § 2; NMSA 1978, § 19-1-1)
- The Commissioner has a fiduciary duty to manage state trust lands in a manner that generates revenue while protecting trust assets (e.g., land); ensure they remain productive and healthy for current and future generations
- Earnings benefit schools, universities, hospitals and other important public institutions – which reduces the burden on taxpayers by billions of dollars each year
- Land (NMSLO) and associated investment holdings (SIC LGPF) are part of the same trust, serve exactly the same beneficiaries
- Federal and state legal mandates govern the grant of trust lands as a condition of statehood (*Lassen v. Arizona ex rel. Arizona Highway Dept.*, 385 U.S. 458 (1967); *State ex rel. King v. Lyons*, 2011-NMSC-004, 149 N.M. 330; *State ex rel. State Highway Commission v. Walker*, 1956-NMSC-080, 61 N.M. 374; *State ex rel. Otto v. Field*, 1925-NMSC-019, 31 N.M. 120
 - Must be compensated for the “true value” of the use of trust lands
 - Trust obligations run to the beneficiaries, not the “state” in general (designated beneficiaries derive the full benefit of the land grant)
 - The federal Enabling Act is part of the state’s fundamental law to the same extent as if it had been directly incorporated into the state constitution
 - Trust provisions enforceable by the U.S. Attorney

New Mexico Land Ownership

- The State Land Office manages and holds in trust about 9 million acres of surface estate (~12% of all land in NM) and 13 million acres of mineral estate (~17%)
- State trust lands are located in every county in the state
- Generated over **\$10 billion** over the last five years from a wide variety of leasing activities, including energy, commercial development and agriculture



State Trust Lands

- Subsurface Estate
- Surface Estate
- Both Estates

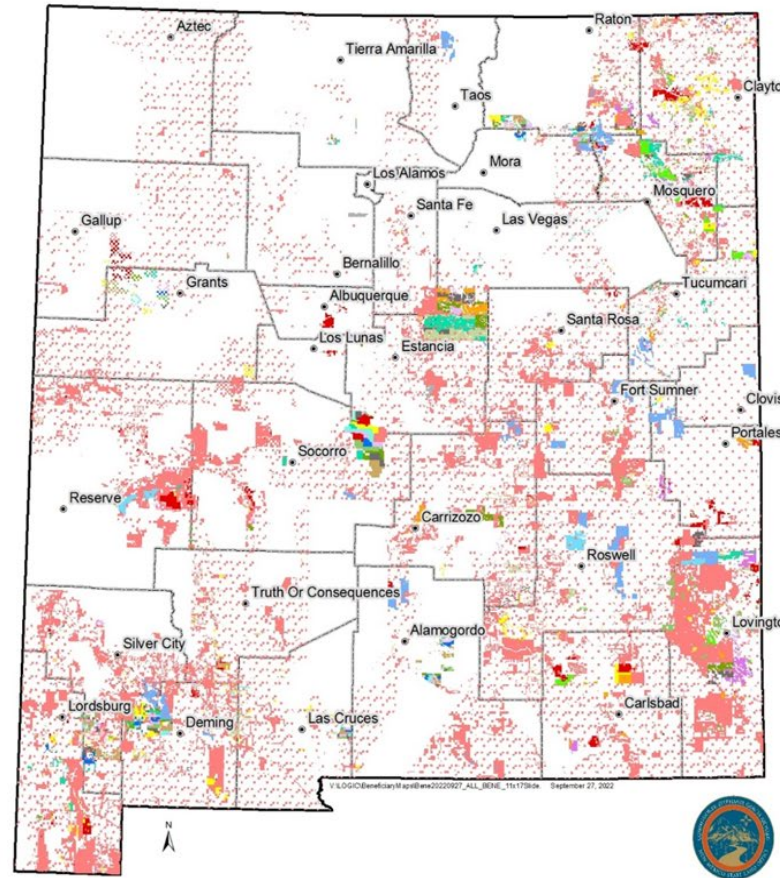
Other Surface Ownership

- Bureau of Indian Affairs/Tribes
- Bureau of Land Management
- Bureau of Reclamation
- Department of Agriculture
- Department of Defense
- Private
- DOE
- USDA Forest Service
- Fish and Wildlife Service
- National Park Service
- Valles Caldera National Preserve
- State Parks



Lands Assigned to Each Beneficiary

Beneficiary	Surface Acreage	Mineral Acreage
Common Schools	6,803,453	9,767,525
University of New Mexico	253,140	344,864
Saline Lands	1,044	1,502
New Mexico State University	194,571	254,200
Western New Mexico University	77,500	118,642
New Mexico Highlands University	77,500	118,642
Northern New Mexico College	31,918	56,563
Eastern New Mexico University	82,802	104,039
New Mexico Tech	162,588	219,019
New Mexico Military Institute	135,578	160,011
New Mexico Boys School	50,814	62,331
Miners Colfax Medical Center	98,557	120,766
Behavioral Health Institute	101,242	164,024
State Penitentiary	113,509	159,695
School for the Deaf	87,079	107,022
School for the Blind	100,827	118,830
Charitable Penal & Reformatory	74,551	99,620
Water Reservoirs	341,626	470,417
Rio Grande Improvement	54,221	89,202
Public Buildings	88,846	132,112
Carrie Tingley Hospital	18,799	13,692
TOTAL	8,950,165	12,682,718



- 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/Visually Impaired
 - New Mexico School for the Visually Impaired
 - Public Buildings
 - University of New Mexico
 - Water Reservoirs
 - Western New Mexico University
 - Western New Mexico University/New Mexico Highlands University

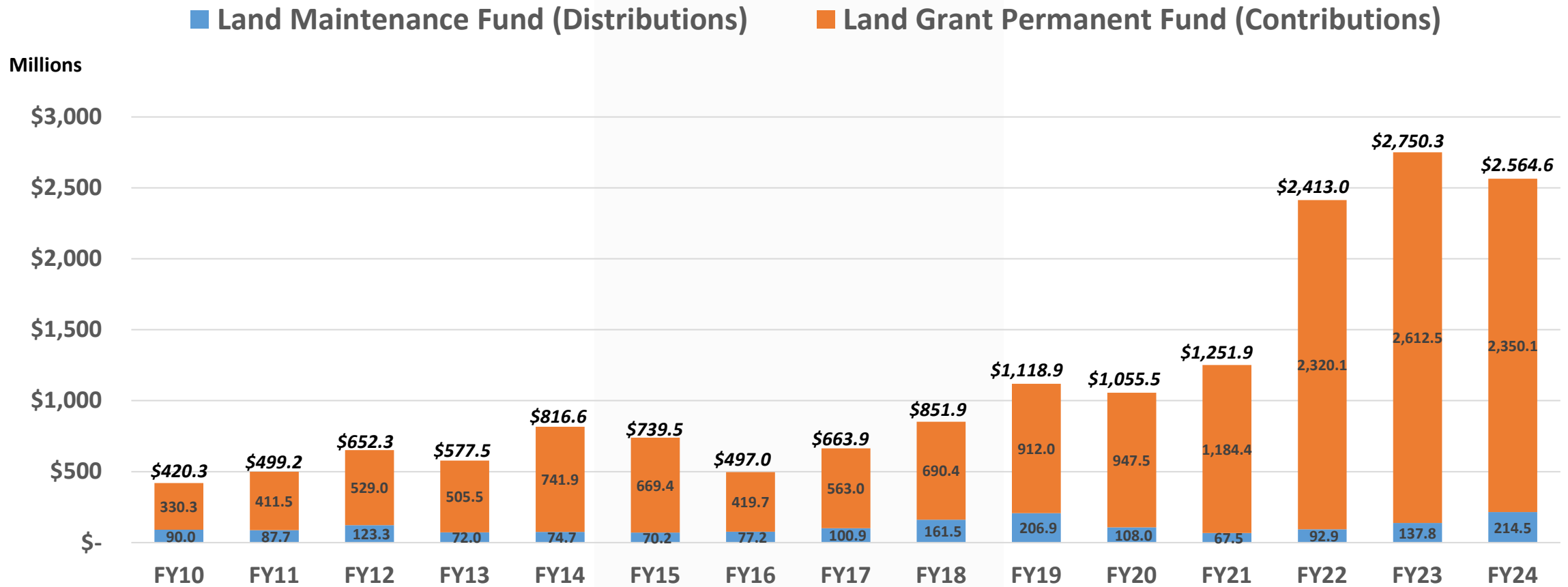
Beneficiary Land/Earning Allocations

- 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

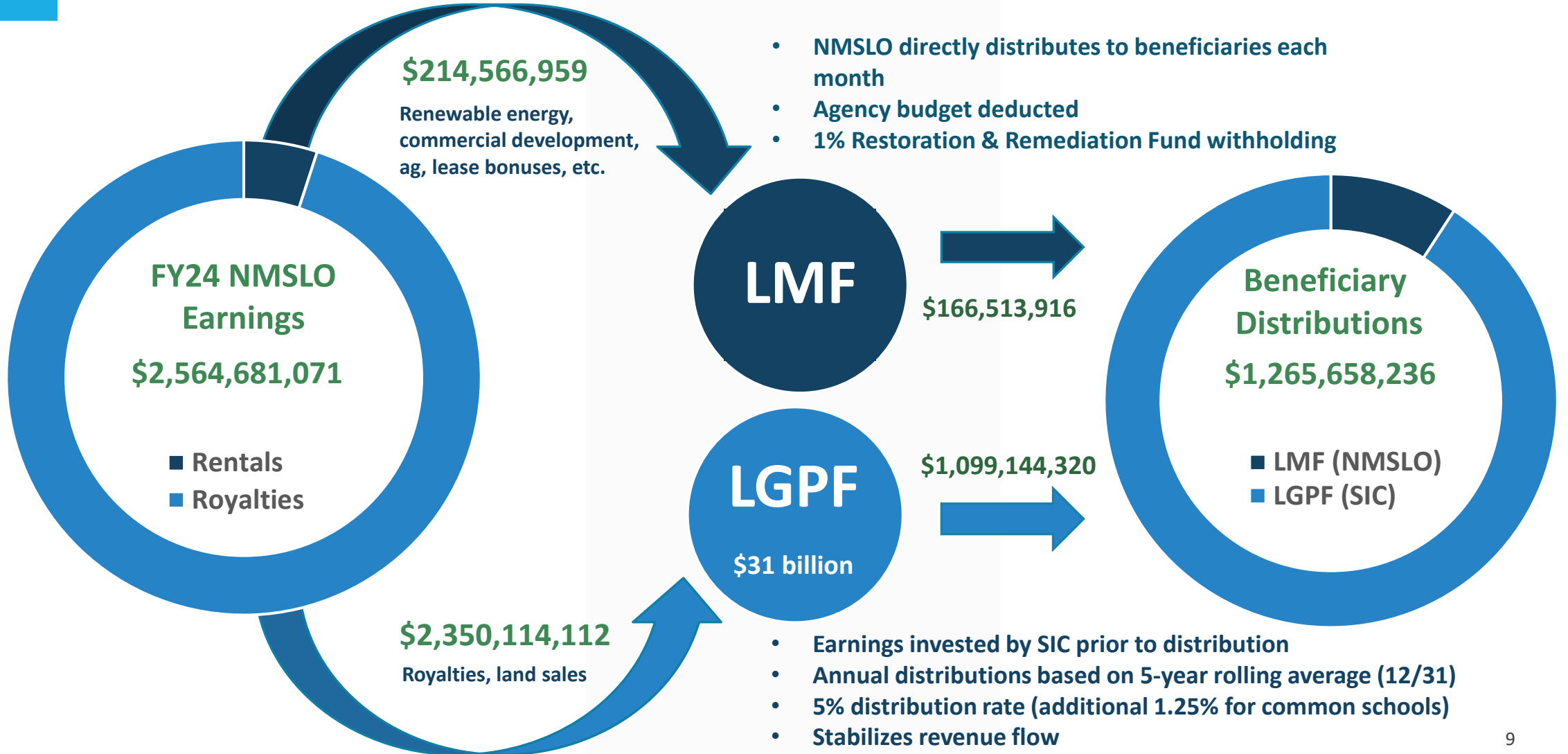
6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Township = 36 Sections/ Section = 1 square mile

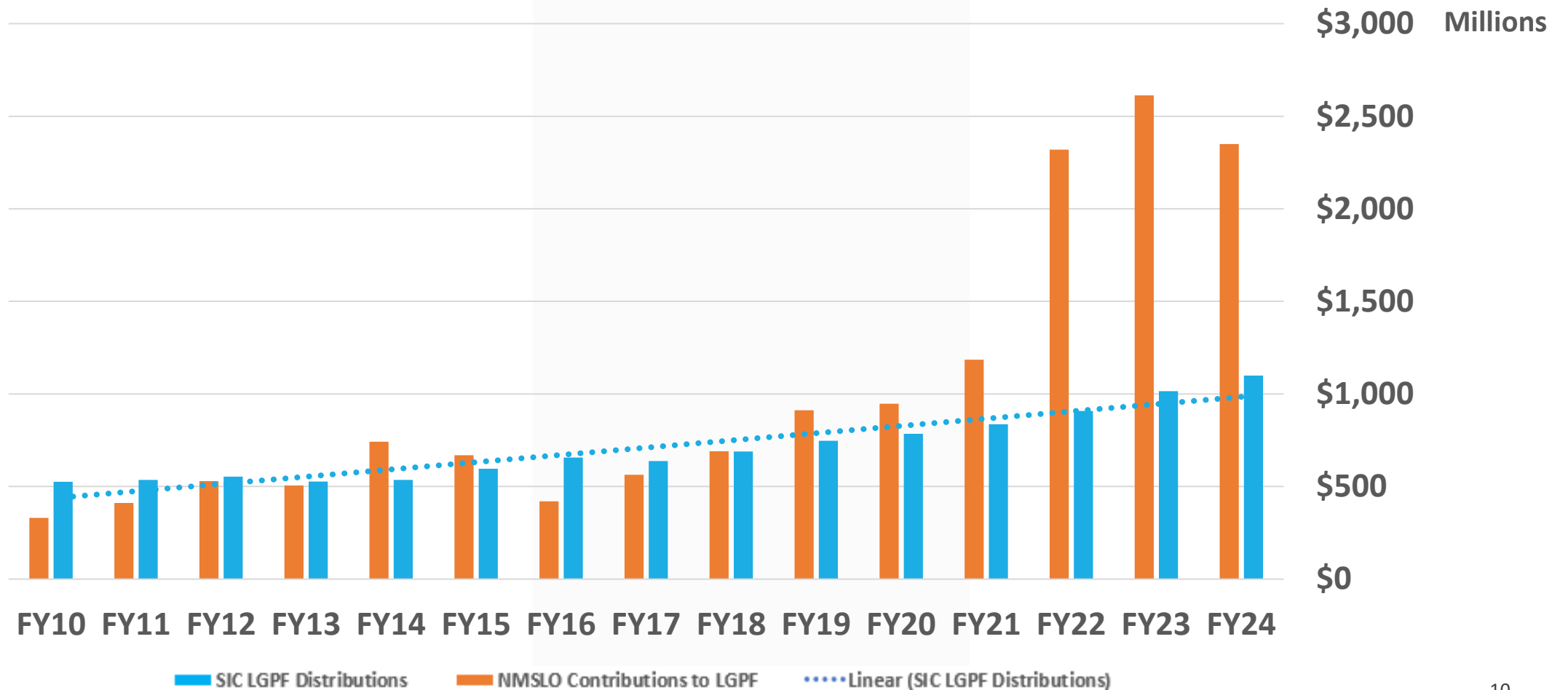
State Land Office Earnings By Fund



NMSLO Earnings and Distributions

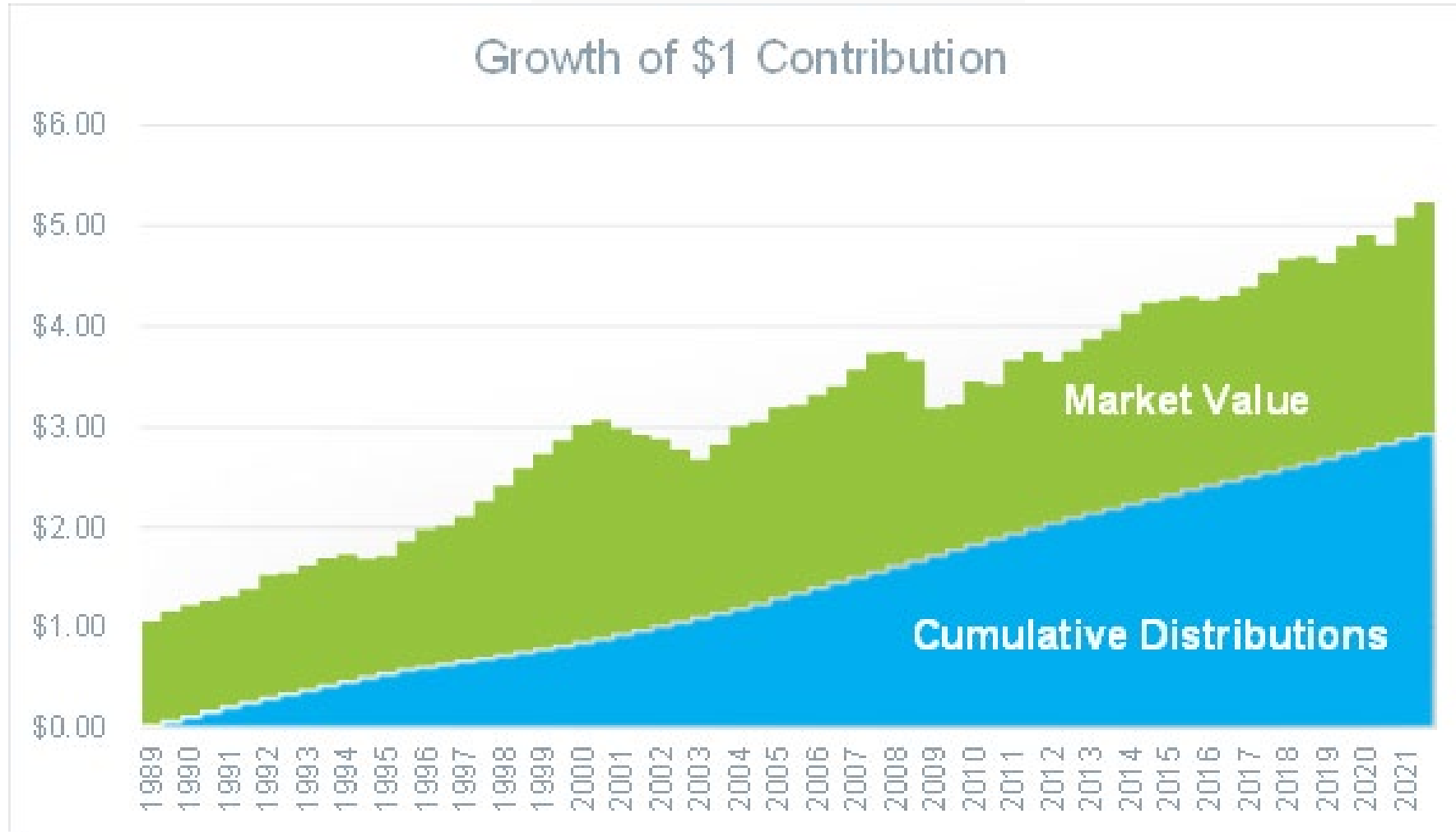


LGPF Stabilization of NMSLO Earnings



LGPF Leverages \$ Prior to Distribution

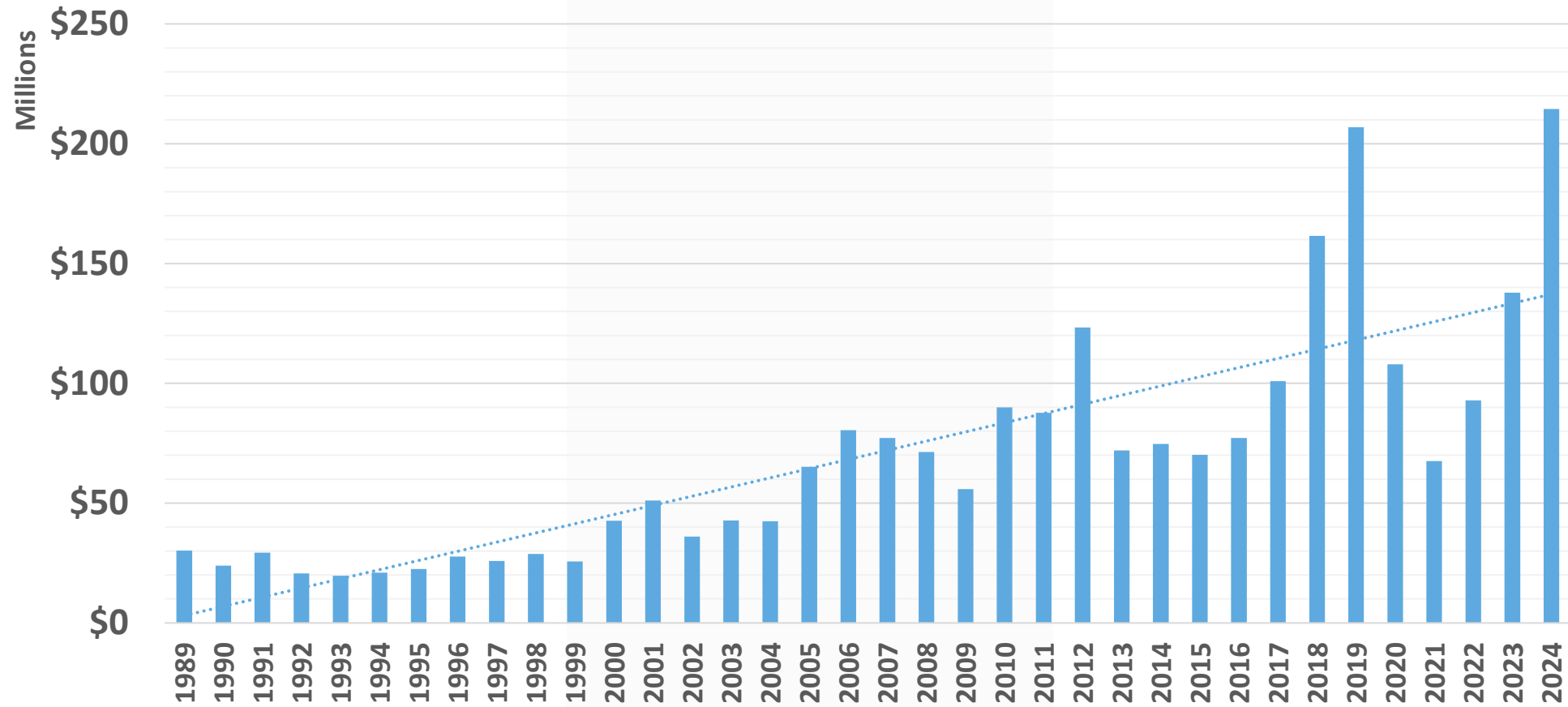
\$1 from NMSLO into LGPF + 30 years = \$5 Return on Investment



Source: SIC

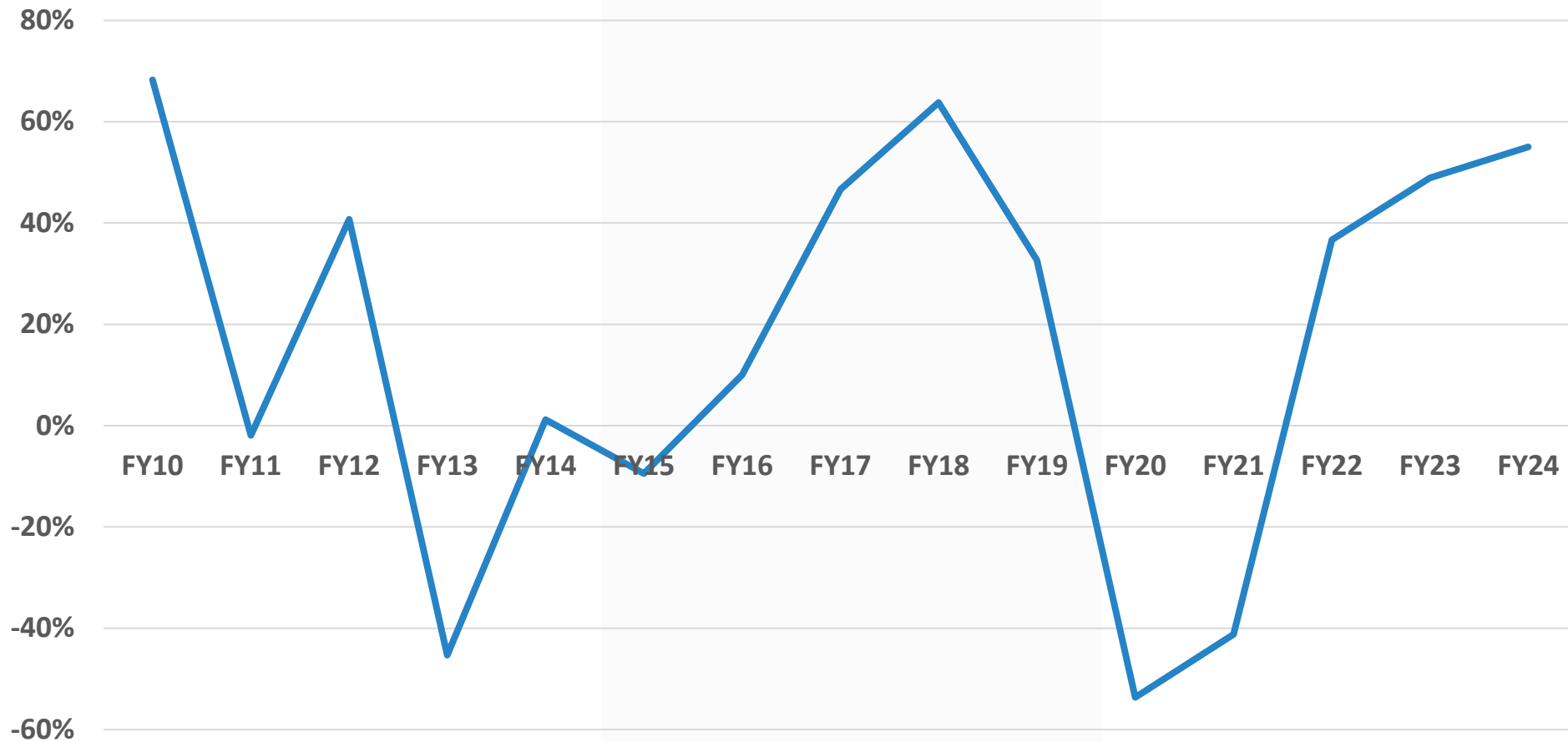
Land Maintenance Fund Earnings

\$1 Earned, \$1 in Value – No Growth Potential Prior to Distribution



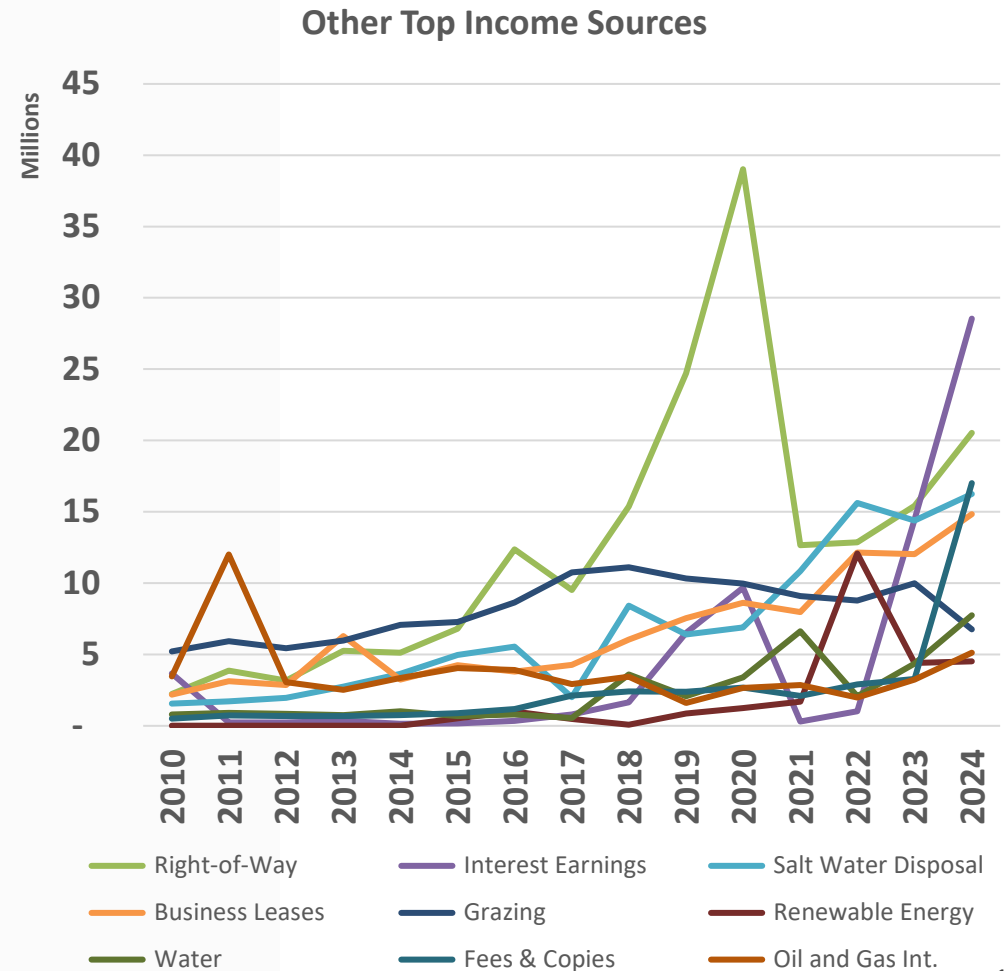
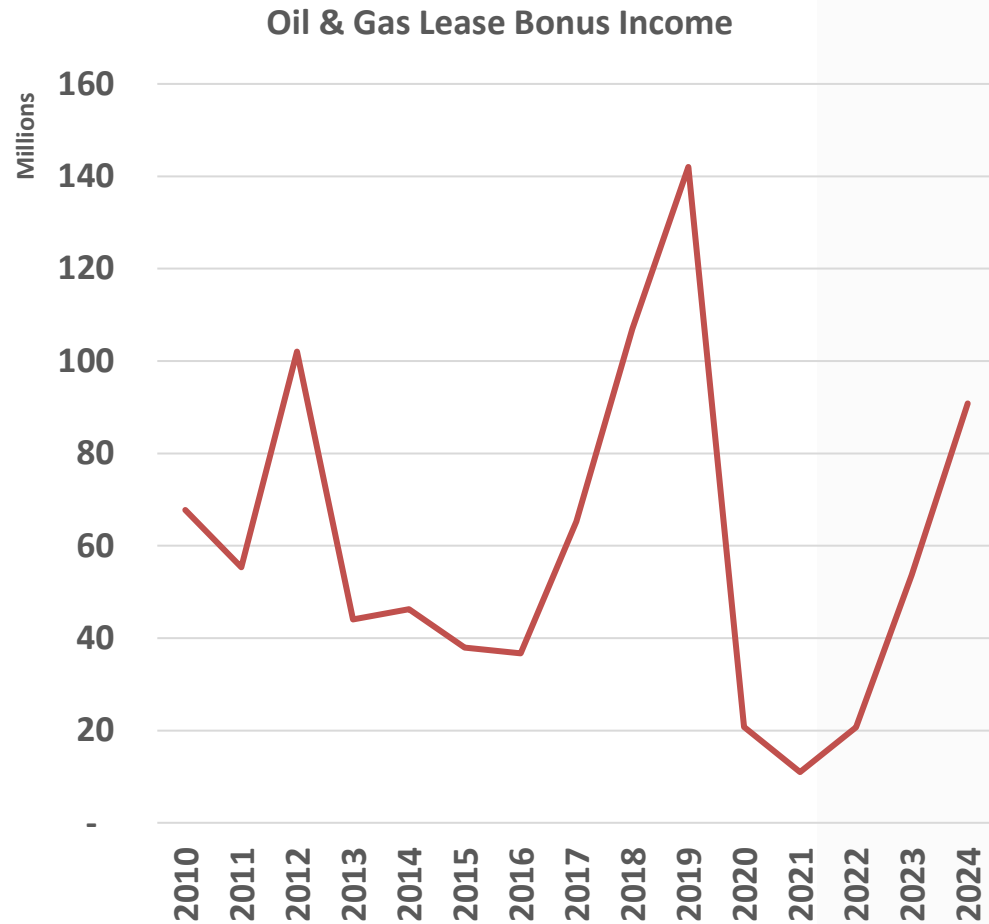
High Volatility in Land Maintenance Fund Distributions

Year-Over-Year % Change in LMF Distributions



Top Ten LMF Revenue Sources

Reactive to Availability of O&G Parcels, Industry Driven Applications





DIVERSIFICATION EFFORTS

HEADWATERS ECONOMICS REPORT



Diversifying Revenue on New Mexico's State Trust Lands

- Expand renewable energy ✓
- Actively pursue commercial development opportunities ✓
- Grow outdoor recreation ✓
- Monetize conservation activities ✓
- Tackle legacy fiscal risks and improve stewardship of oil and gas activities (bonding, remediation & reclamation) ✓
- Expand agency resources and capacity ✓
- Foster partnerships to leverage investment opportunities ✓
- Strategic planning ✓
- Increase oil and gas royalty rate (requires legislation) ⌚



NETFLIX



Luminaria
SENIOR COMMUNITY

Commercial Development



El Sendero Hotel, Santa Fe



Netflix Studios, Albuquerque

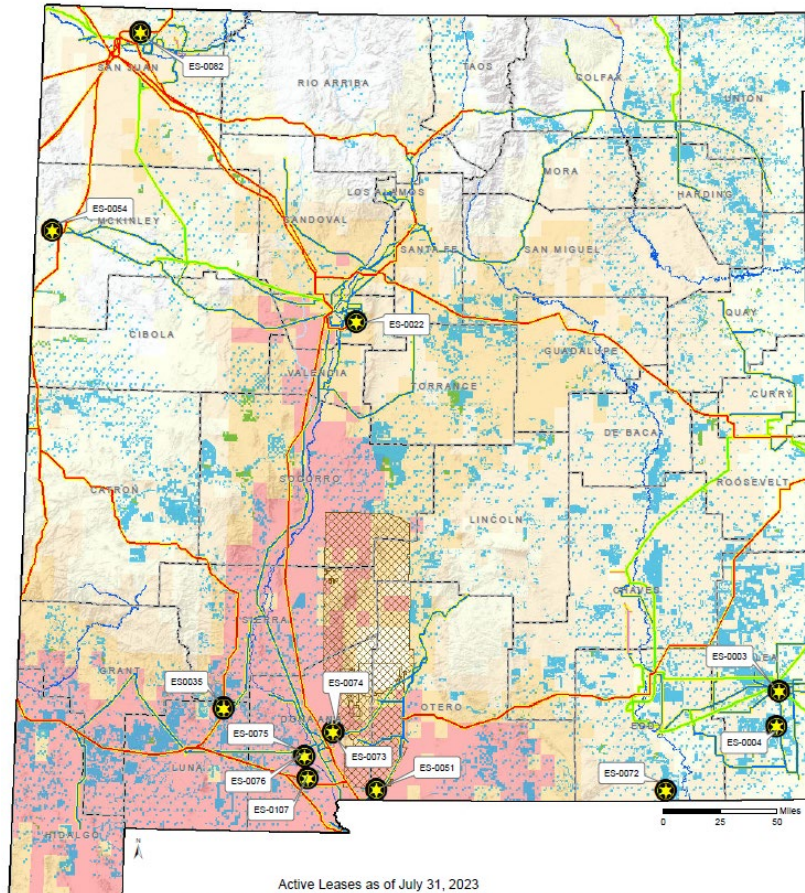


Luminaria Senior Housing, Albuquerque

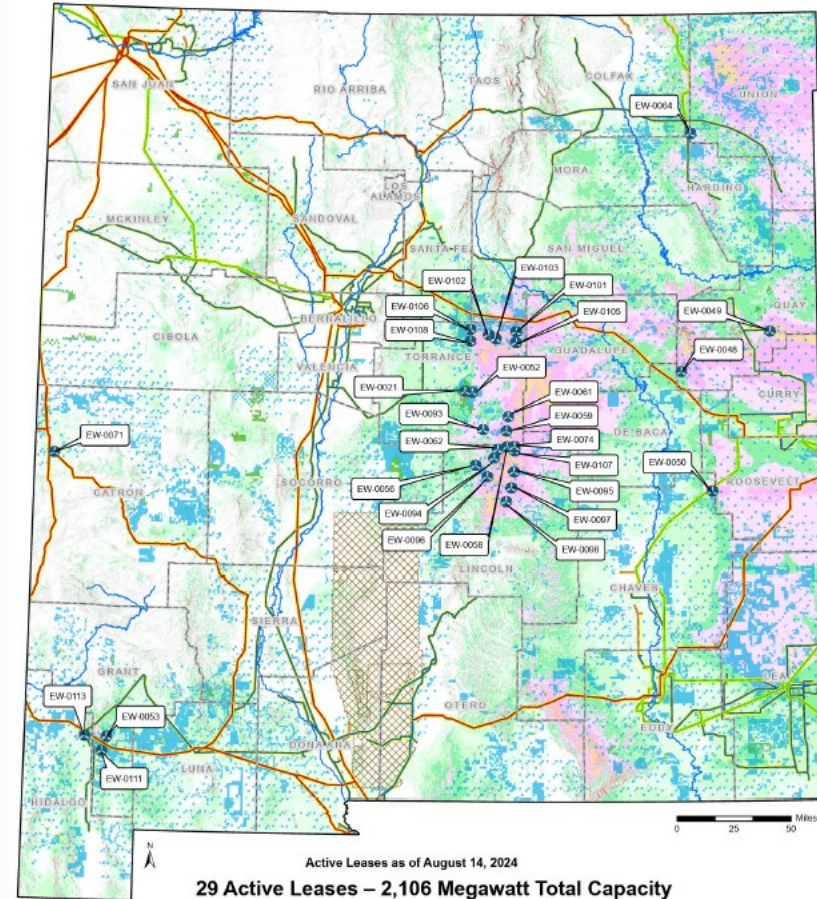
NMSLO Renewable Energy Projects

42 Active Projects; 35 Applications

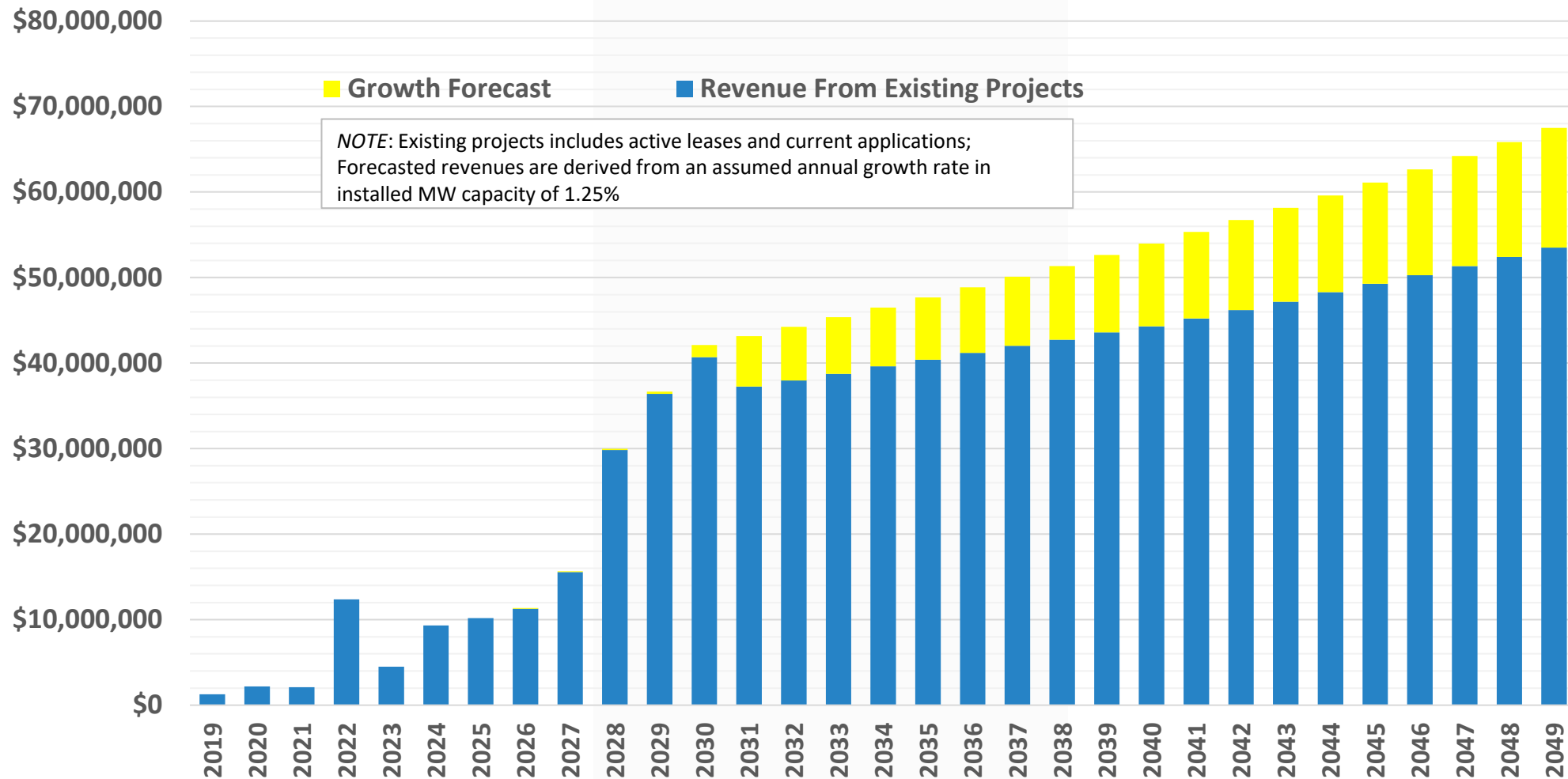
Active Solar Energy Leases on NM State Trust Land



Active Wind Energy Projects on NM State Trust Land



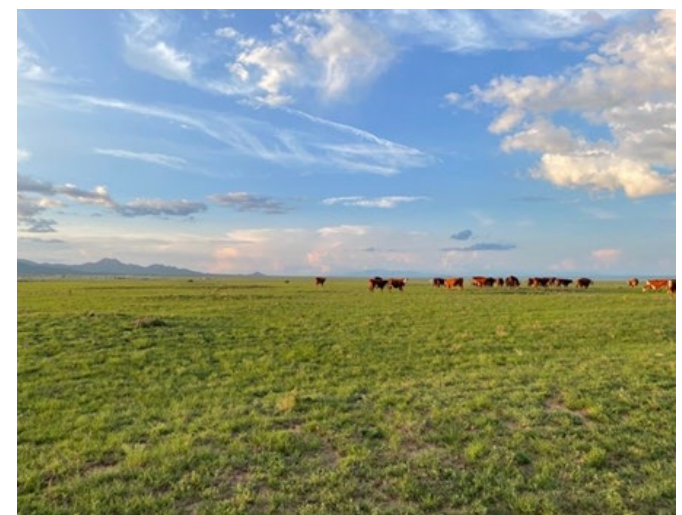
Renewable Energy 30-Year Forecast



Leveraging Conservation

Environmental markets present financial opportunities for landowners to create additional revenue streams through conservation

- Carbon capture credits
- Agricultural community partnerships
- Soil and ecosystem management practices
- Conservation leases / easements
- Mitigation payments



Reducing Legacy Fiscal Risks

Legacy clean up cost can pose significant financial risks for taxpayers and state land trust beneficiaries; diverts resources from public schools

Accountability & Enforcement Program: Ensure lessees honor their contractual obligations to responsibly close out their operations

- 571 wells plugged at industry's expense
- Cost savings of more than \$50 million
- 22 lawsuits filed





MARKET RATE OIL AND GAS ROYALTY RATE LEGISLATION

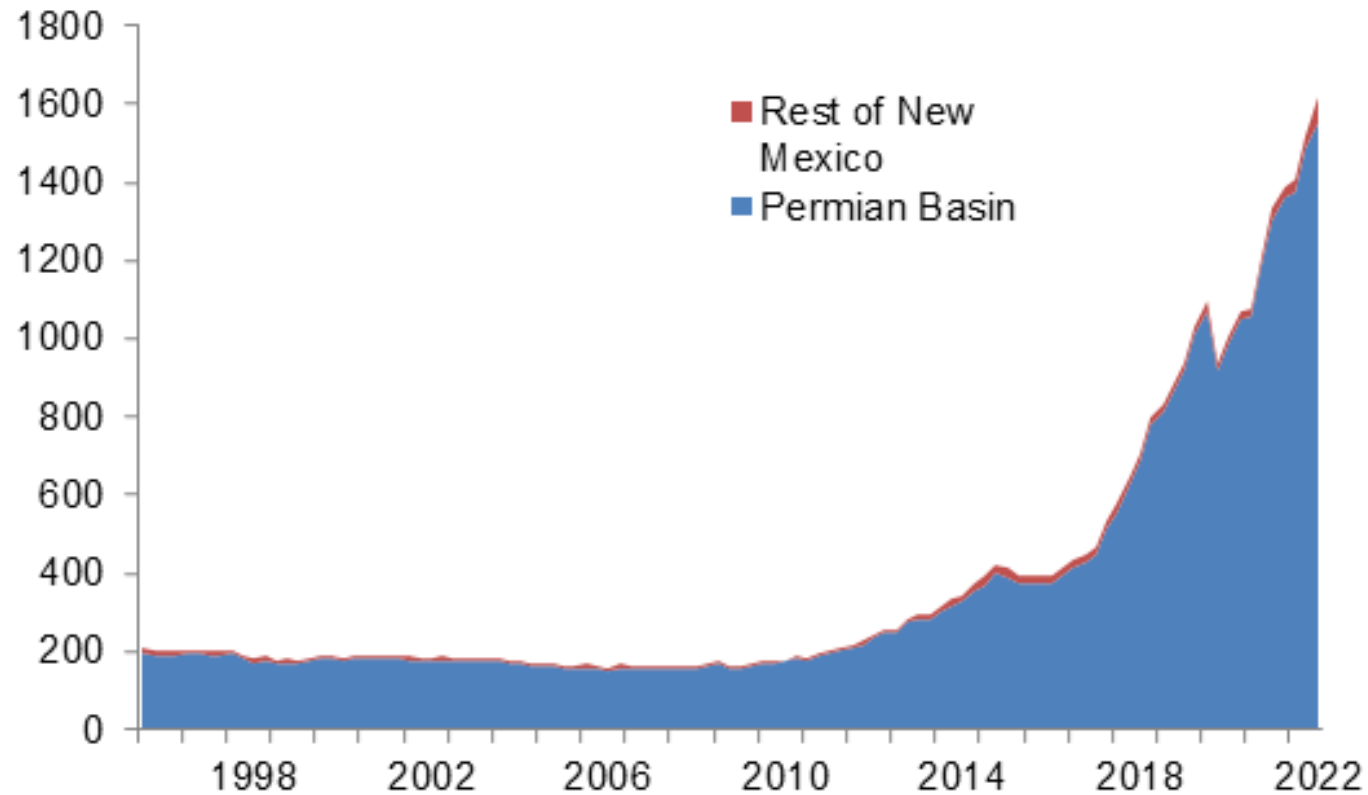
The Basics – Oil and Gas Royalty

- Royalties are NOT taxes – they are what a private company pays for the right to use a public resource (e.g., currently a company gets 80% of the value, NMSLO gets 20%)
- Oil and gas lease royalty rates are set in statute – last raised in the 1970s; artificially cap what the NMSLO can charge at a below market rate
- Mission of the NMSLO is to generate revenue for public schools and other trust beneficiaries (fiduciary responsibility to seek market rate)
- New Mexico has the best shale plays in the world (Permian Basin); market royalty rate (Texas and private) for premium parcels is 25%
- Legislation would increase the top rate NMSLO can charge to 25% for NEW leases only, and only for the best tracts
- Royalties paid, invested and distributed offset taxpayer burden

Almost All NM Oil Production Comes From the Permian Basin

New Mexico Oil Production in Permian Basin and Rest of State

Thousands of barrels per day, quarterly

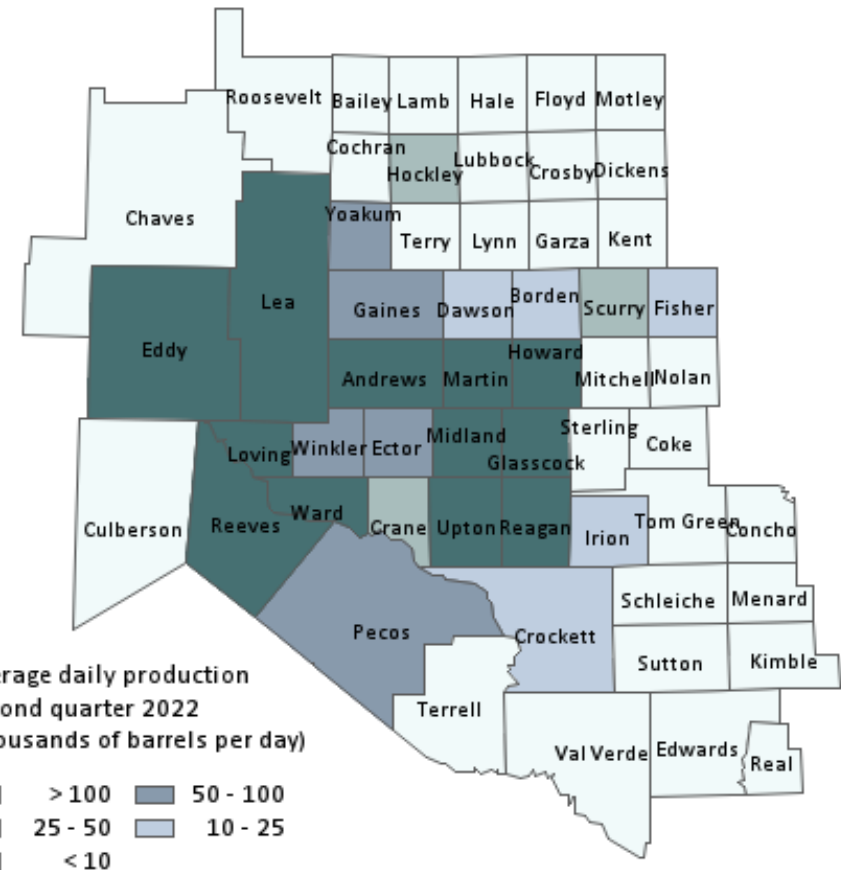


SOURCE: Oil Conservation Division of New Mexico; Energy Information Administration.

New Mexico has the Best Production Zones in the Permian

Lea and Eddy counties rank #1 and #2 respectively of the top 20 oil-producing counties in the Permian Basin.

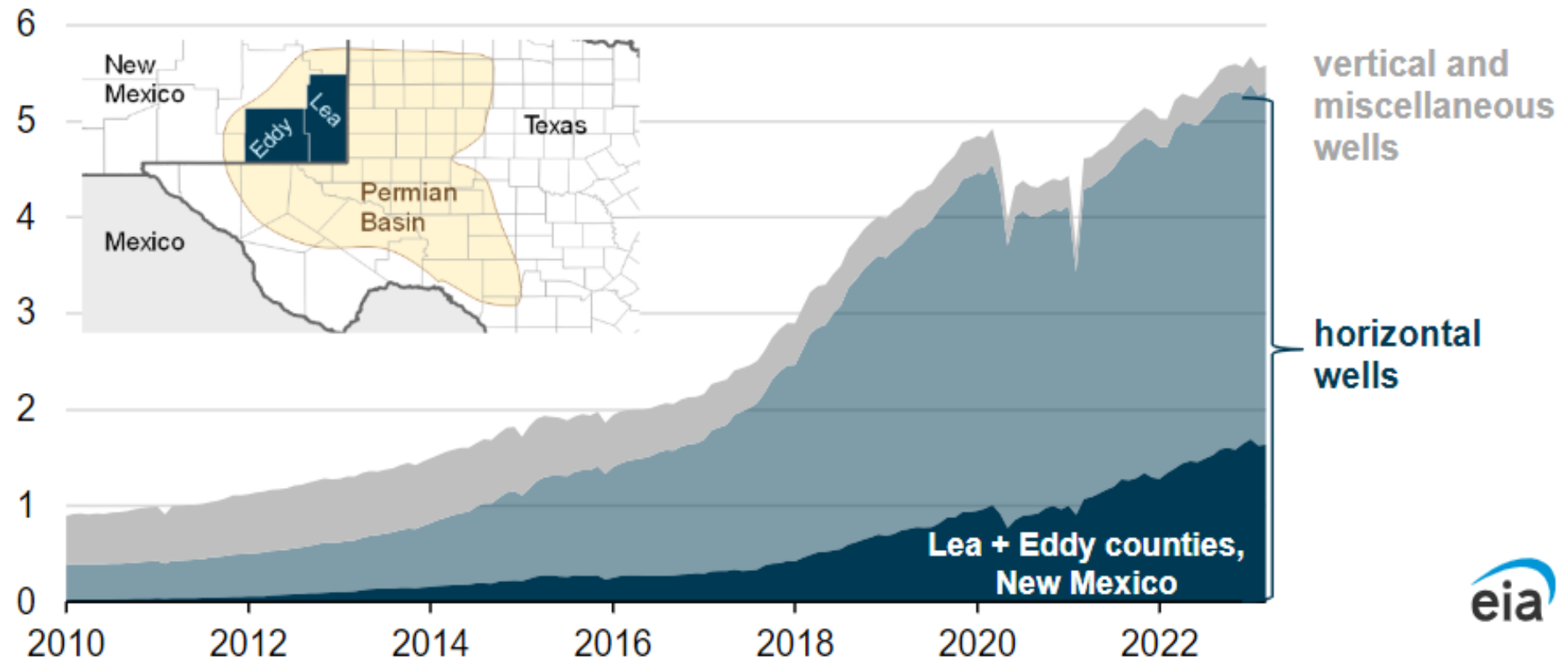
Oil Production Zones in Permian Basin



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

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



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.

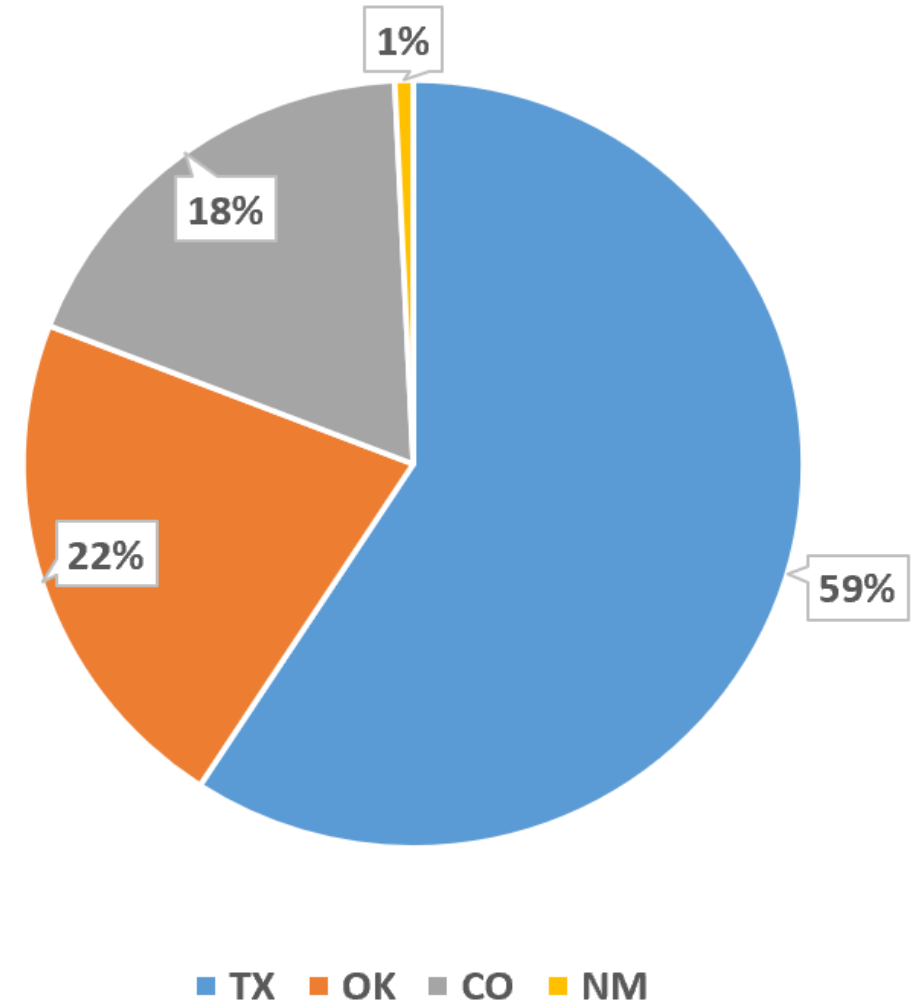
(2) New Mexico was NOT included in this study; however, LFC staff used similar methodology to calculate the effective tax rate and included NM for reference only. New Mexico assesses an ad valorem tax on production and equipment in lieu of property tax.

Source: Covenant Consulting Group, January 2017



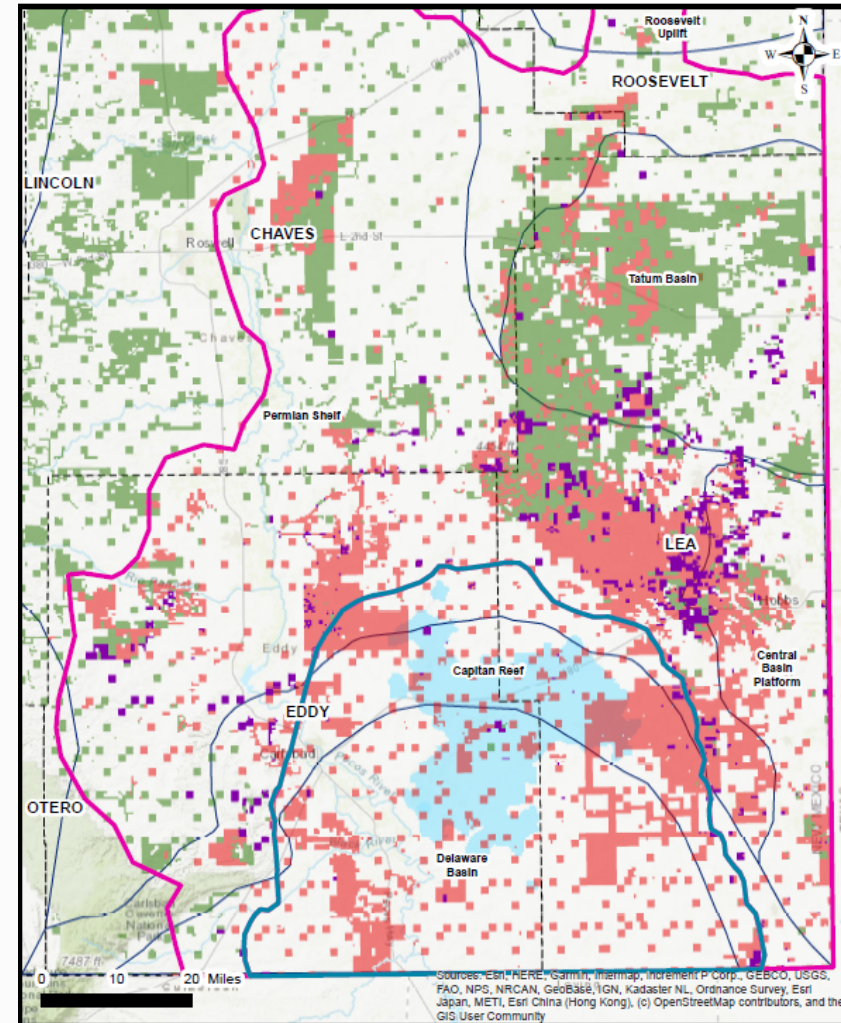
Who pays O&G royalties on state trust lands?

State Land Office royalties are paid primarily by out-of-state companies. In FY23, 99% of \$2.6 billion in royalties paid were from companies registered in Texas, Oklahoma and Colorado. NM companies paid less than \$20 million.



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

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

- Offered Tracts from 1/2019-6/2023
- Open Lands as of 5/2023
- Oil and Gas Leases
- Potash Outline

Impact on Revenue Generation, Stabilization & Diversification

- Revenue Generation
 - NMSLO: \$50M - \$84M/year in increased royalty earnings
 - LFC: \$50M - \$75M/year in increased royalty earnings
 - SIC: \$1.5 - \$2 billion increase in Land Grant Permanent Fund value by 2050
 - SIC: \$750M - \$1.3 billion more in cumulative distributions by 2050
- Stabilization – SIC/LGPF investment and growth prior to distribution
- Diversification – Royalties paid on permanent depletion of O&G but LGPF continues to make money on money (investments/interest) for years to come

QUESTIONS?



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