



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

Water and Natural Resources Committee
Ruidoso
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New Mexico State Land Office

The New Mexico State Land Office

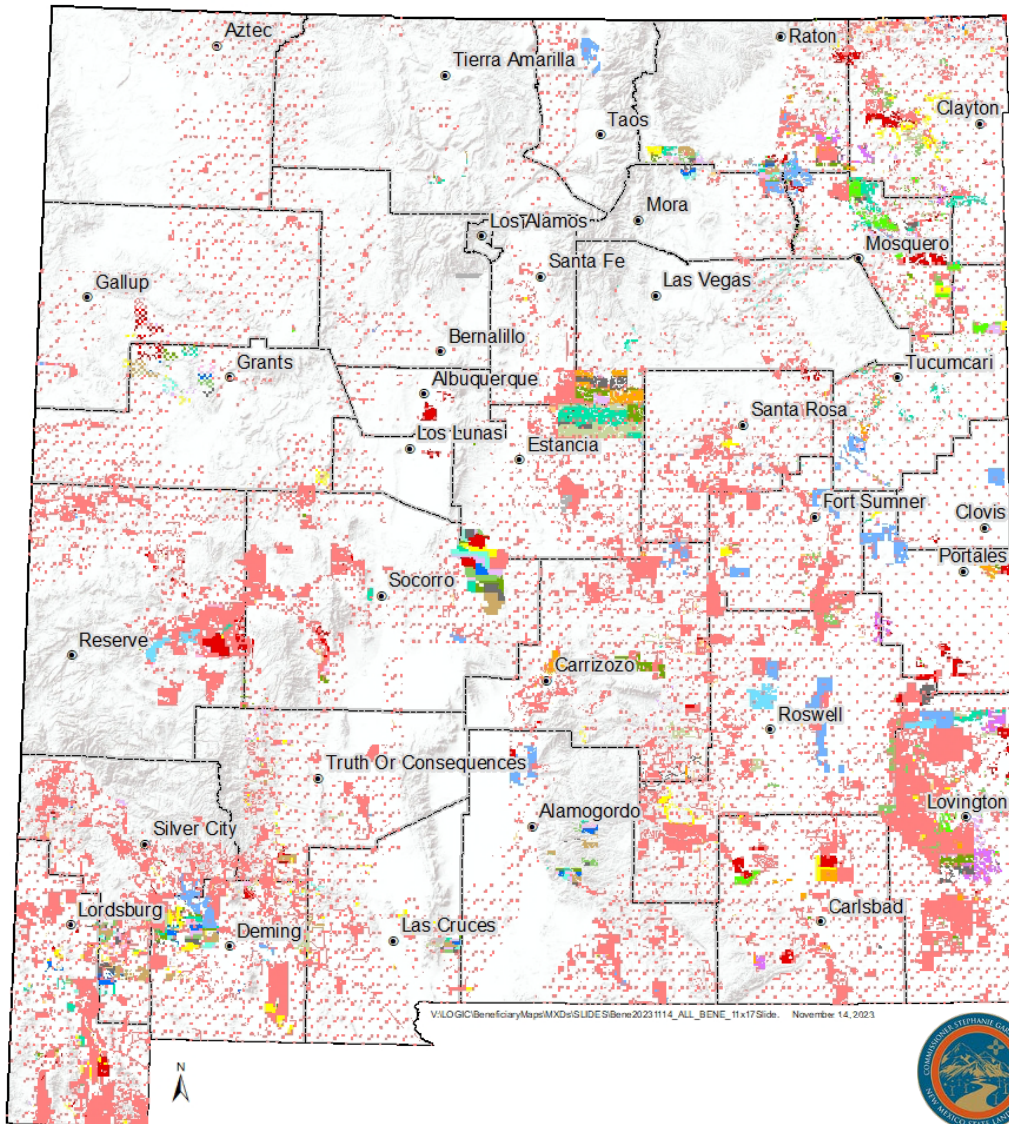
LAND OFFICE OVERVIEW

The New Mexico State Land Office

Top FY24 Accomplishments

- \$2.56 billion in earnings (record LMF at \$215 million)
- Completed two major wind projects which will earn over \$146 million
- Established new Community Solar Program
- Hosted annual Tribal Summit
- Developed an online consultation portal for Tribes
- Launched Conservation Leasing Program
- Processed over 840 agricultural leases
- Clean financial audit while processing over 25,000 payments
- Named a National Top Workplace by *USA Today*
- 530 + wells plugged at industry's expense (+\$50 million in savings)
- Environmental Compliance Office addressed 679 incidents
- Held O&G industry trainings with over 200 participants

State Lands Assigned to



New Mexico Land Trust Beneficiaries

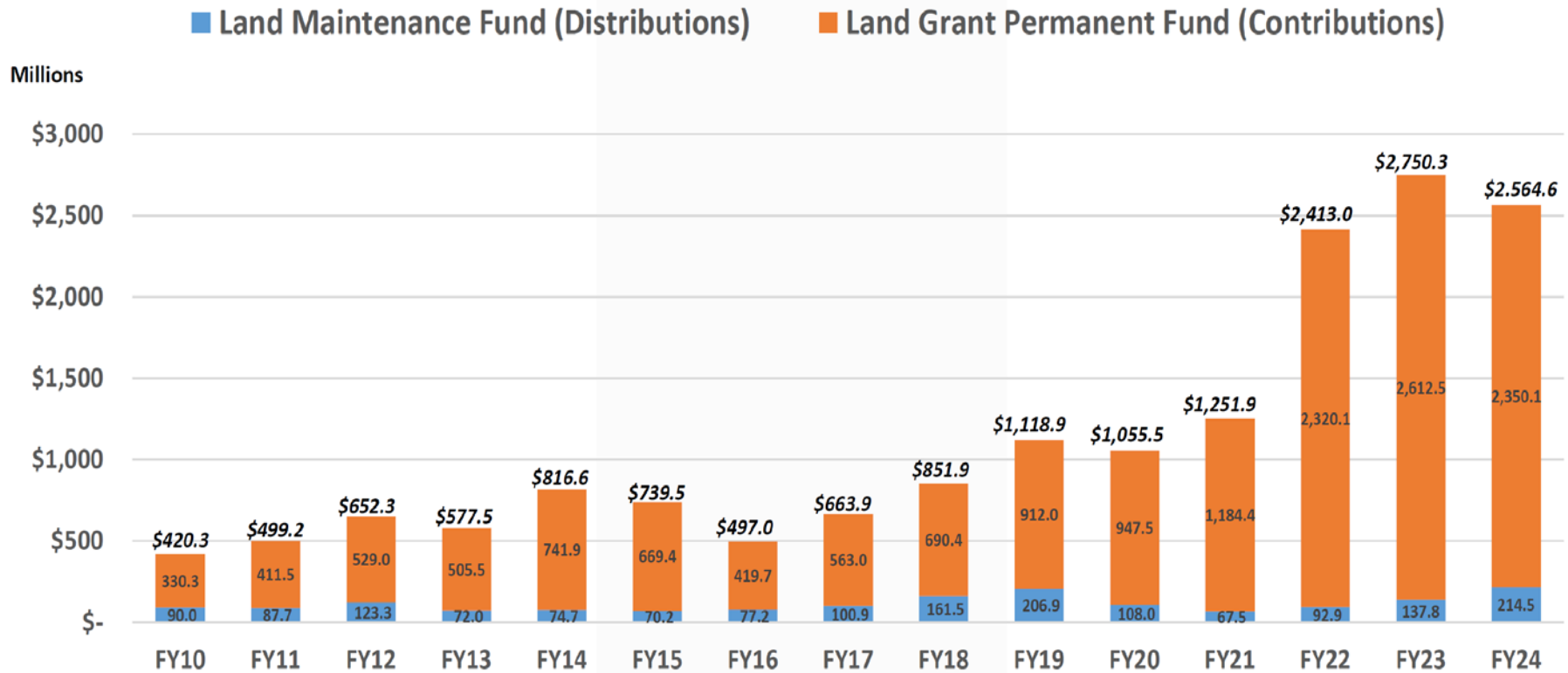
- Common Schools
- Charitable, Penal and Reform
- Carrie Tingley Hospital
- Eastern New Mexico University
- Improvements to the Rio Grande
- New Mexico Miners Hospital
- New Mexico Military Institute
- New Mexico Boys School
- Northern New Mexico College
- New Mexico Highlands University
- New Mexico 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



State Trust Lands' Earnings

State Land Office Earnings By Fund

Highest EVER Land Maintenance Fund Revenue at \$214.5 M



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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

HOW:

This is a very simple bill. It replaces just TWO words in THREE places in state law.

It replaces the words “one fifth” with “one quarter”.

This allows the Land Office to auction its best tracts at 25% royalty rate instead of the antiquated 20% royalty rate.

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.
- **Estimates of additional revenue:**
 - Land Office: \$50M - \$84M/year in increased royalty earnings.
 - LFC: \$40M - \$75M/year in increased royalty earnings.
 - SIC: \$1.5 - \$2 billion more to the Permanent Fund by 2050.
 - SIC: \$750M - \$1.3 billion more in annual distributions by 2050.

2025 Royalty Rate Legislation

WHY:

- Oil and gas companies are getting a sweetheart deal from New Mexico's legislature: just across the state line, Texas has a 25% royalty rate on its state lands. Oil and gas are sold at a market rate. Our leases should be sold at a rate closer to that of the market.
- Even if the rate is the same, NM is still less expensive because the legislature's lease:
 - Allows massive deductions for gas processing & transportation. \$2.6 BILLION worth over 8 years. Cost us \$400+ million in lost revenue -- \$50 million/year.
 - Does not allow us to only lease one formation or a certain depth. Lessees got ALL depths in NM – but not in Texas.

2025 Royalty Rate Legislation

WHY:

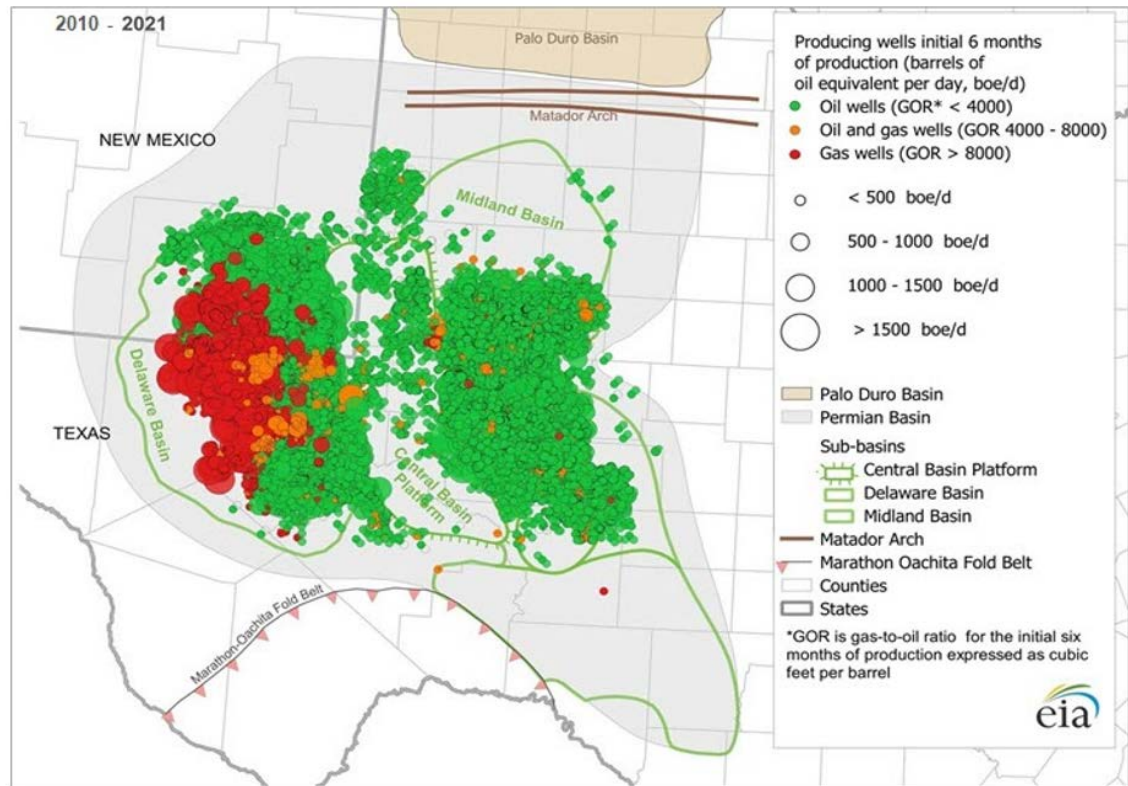
- In NM, in the private market, a 25% royalty rate is not uncommon. Our school kids and beneficiaries deserve no less.
- New Mexico has the best “rock,” the best oil resource in the Permian, which is one of the best shale plays globally. Let me show you.

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.

Source: U.S. EIA

Horizontal Wells Installed in the Permian (2010-2021)



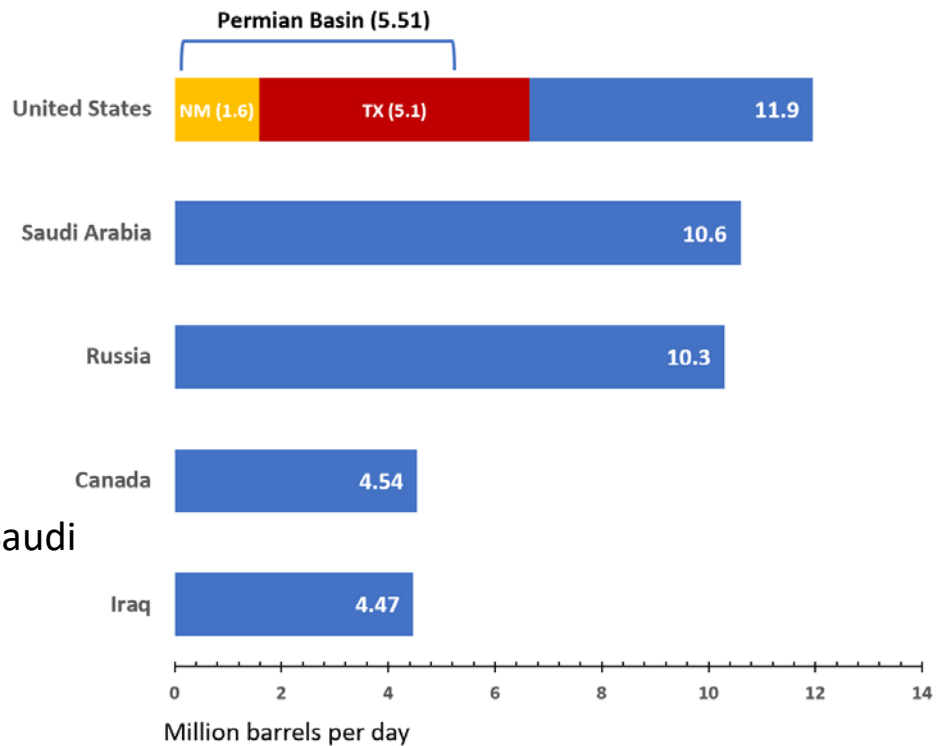
The Permian Basin

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.

If the Permian were a nation, it would be the 4th largest oil producer in the world after US, Saudi and Russia.

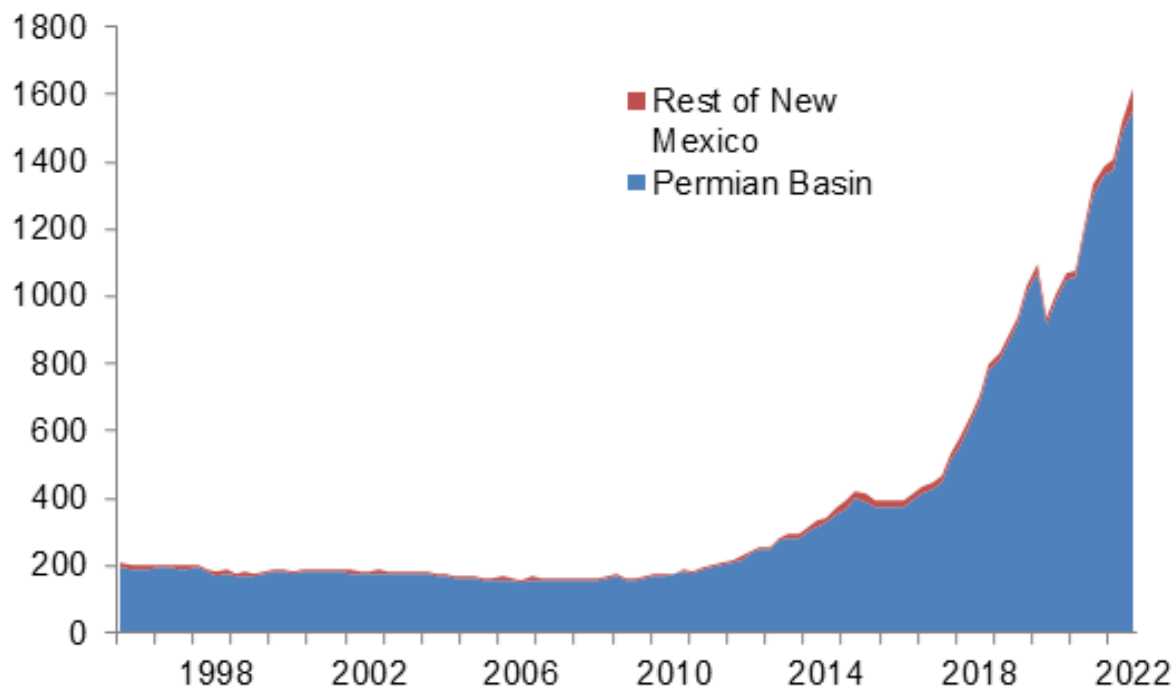


The Permian Basin

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



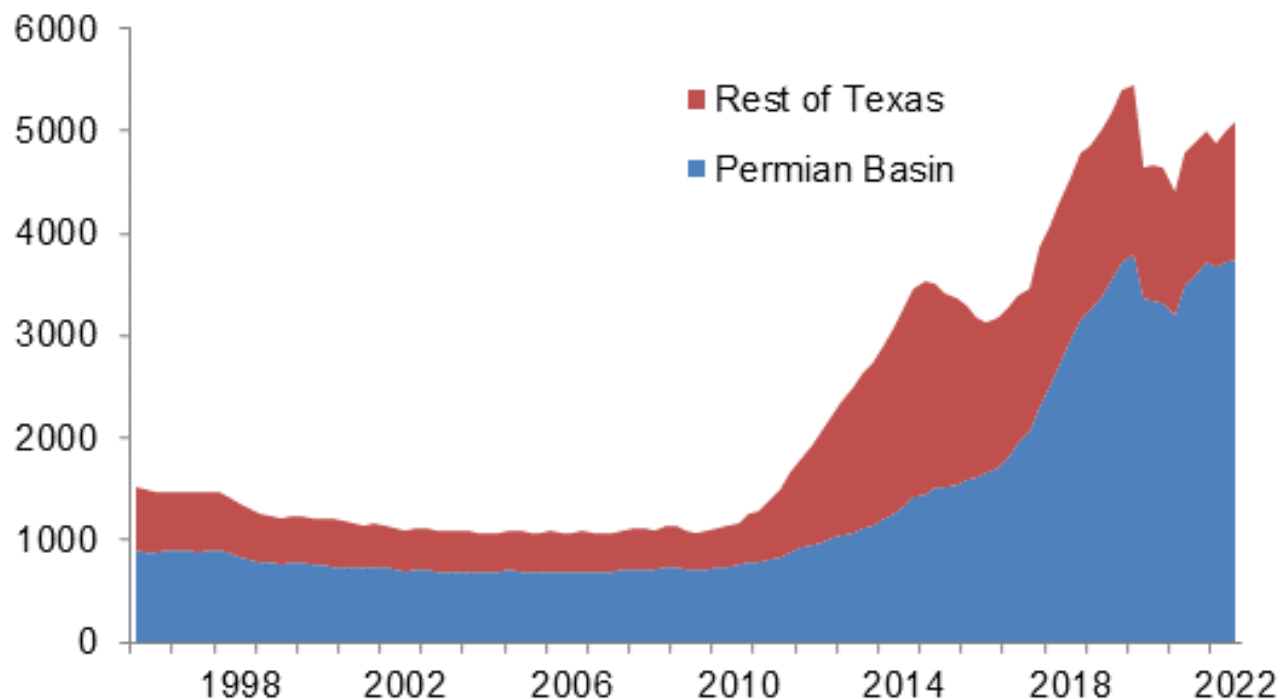
SOURCE: Oil Conservation Division of New Mexico; Energy Information Administration.

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



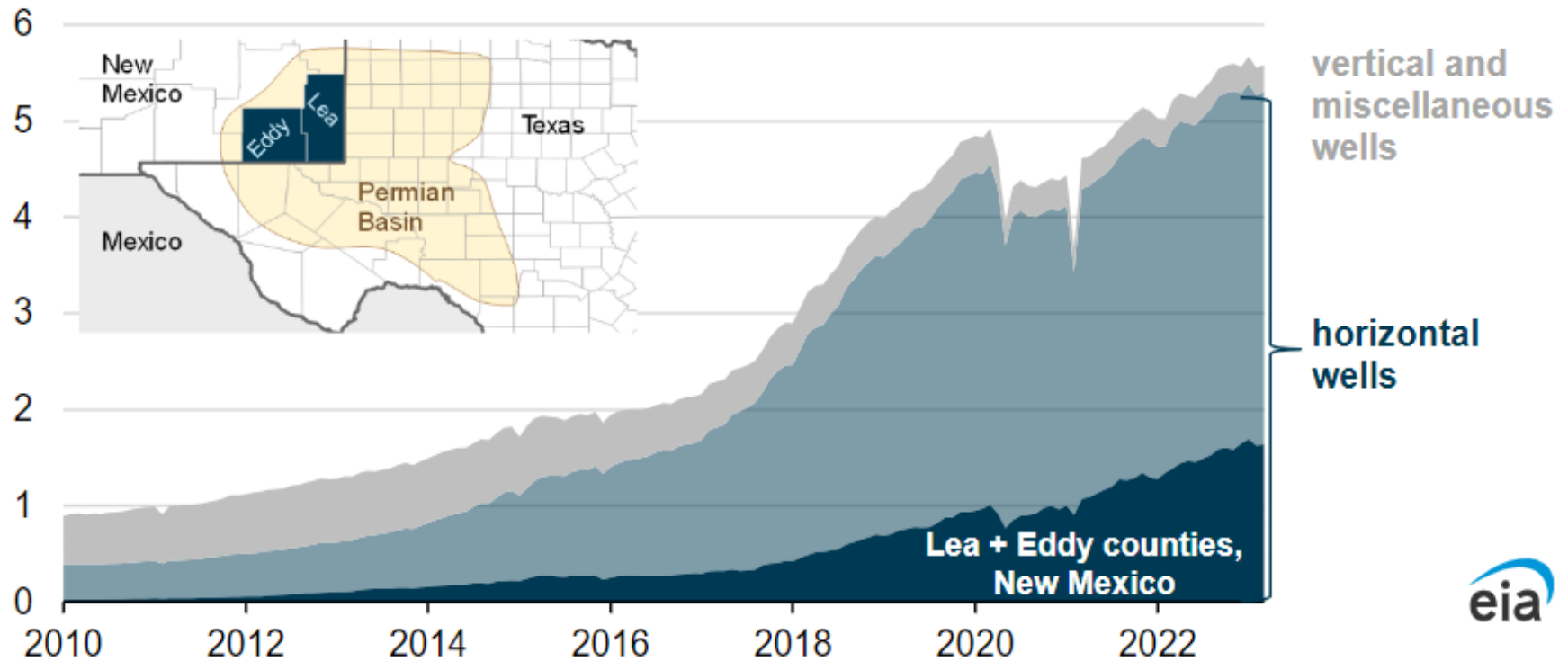
SOURCES: Railroad Commission of Texas; Energy Information Administration; Oil Conservation Division of New Mexico; calculations by Federal Reserve Bank of Dallas.

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



The Permian Basin

NM Production Growing Faster than TX for Past 3 Years on a per barrel basis

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.

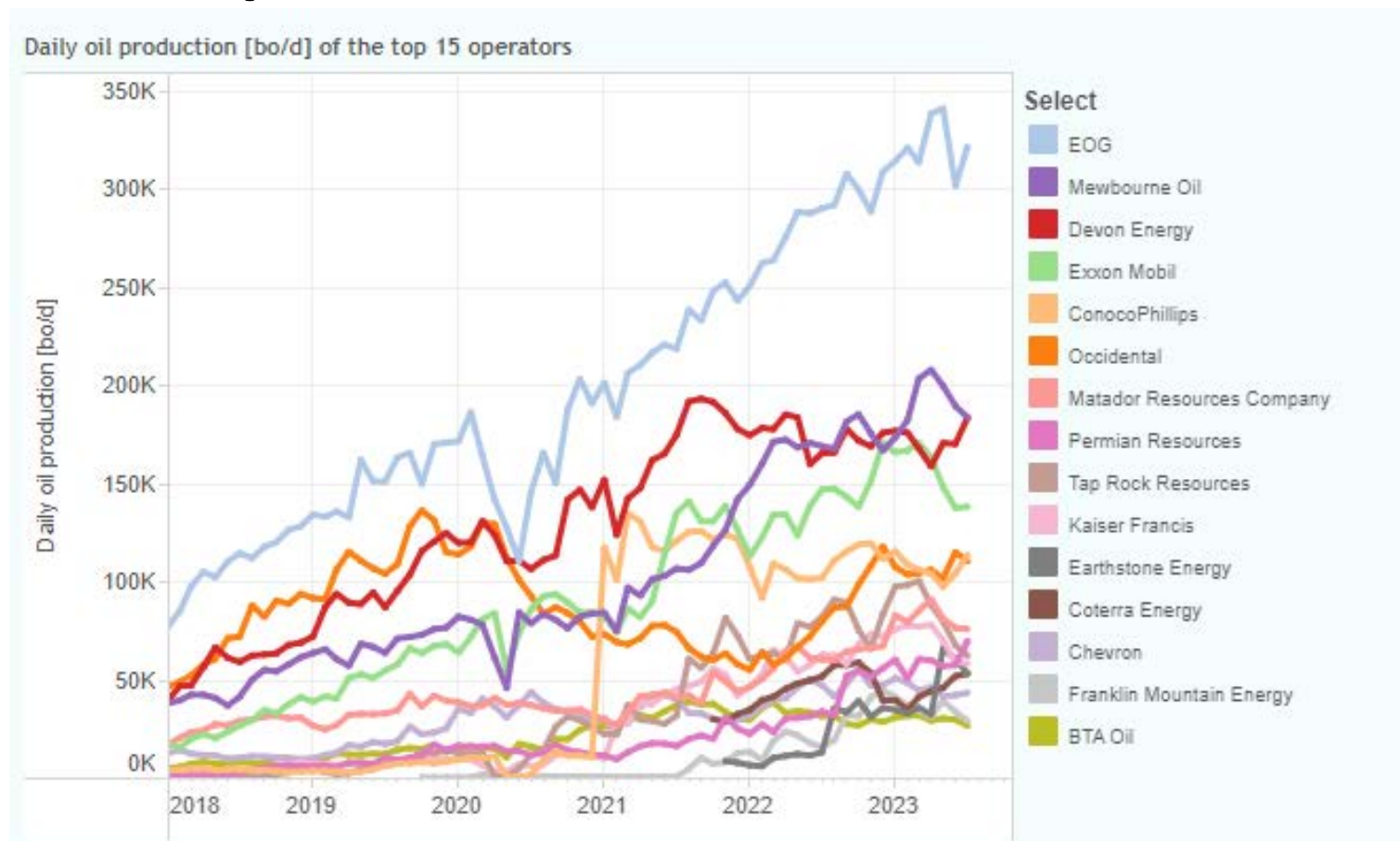
The state's production rose by a record 300,000 barrels per day (bpd) in 2022, to 1.6 million bpd, the U.S. Energy Information Administration said on Thursday. It was the third consecutive year that New Mexico's increase outpaced other states.

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

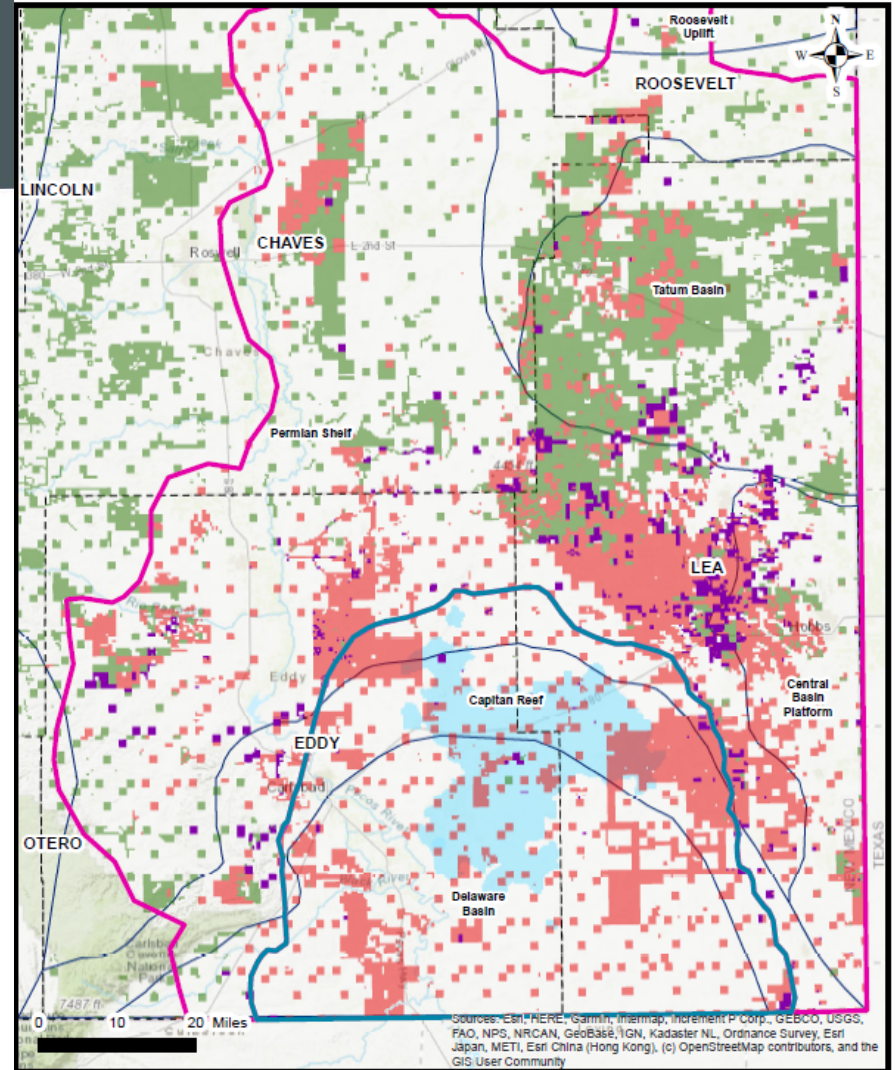
Top Permian Oil Producers in NM



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.

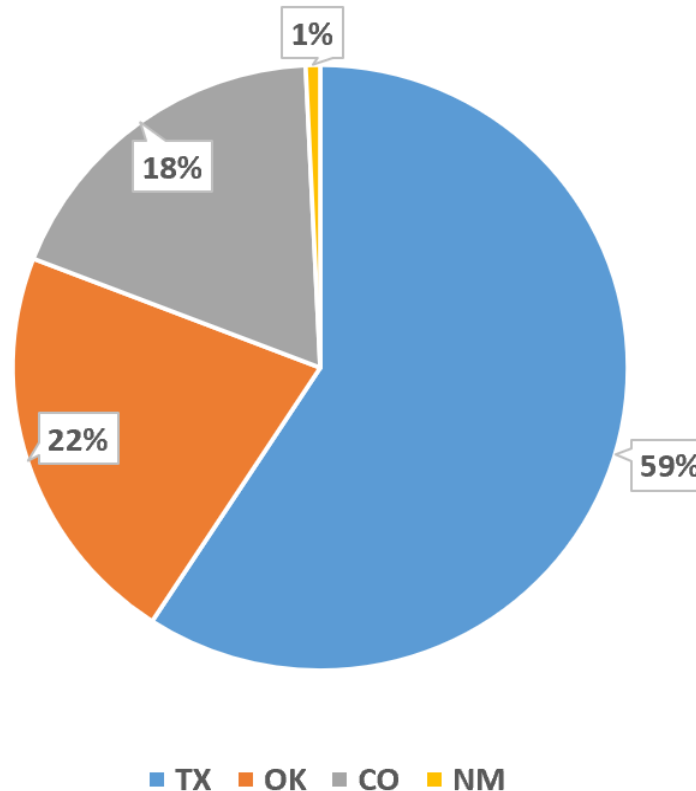
(2) New Mexico was NOT included in this study; however, LFC staff used similar methodology to calculate the effective tax rate and included NM for reference only. New Mexico assesses an ad valorem tax on production and equipment in lieu of property tax.



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.



2025 Royalty Rate Legislation

Why oil companies are raking in record profits under Joe Biden

By [Samantha Delouya](#), CNN

🕒 5 minute read · Published 6:00 AM EDT, Tue June 11, 2024

The top five US-based oil and gas companies by market cap, according to S&P Global — ExxonMobil (XOM), Chevron (CVX), ConocoPhillips (CPP), EOG Resources (EOG) and Schlumberger (SLB) — have raked in more than \$250 billion in profits between 2021 and 2023. That's a 160% jump compared to the first three years of the pro-big-oil Trump administration, according to calculations by CNN.

This is approximately \$83 billion/year in profit—for just the 5 biggest companies. All of whom are heavily invested in NM.

The high end of the Land Office estimate for increased earnings from this bill is \$84 million – or just over 1/10 of 1% of these profits.

Industry can afford this.

2025 Royalty Rate Legislation

SUMMARY

- **We are charged with earning top dollar for the owners of our land and can not continue to subsidize the oil and gas industry.**
- **New Mexico's top royalty rate should be on par with Texas' and private NM rates @ 25%.**
- **We are leaving ONE BILLION DOLLARS on the table and BILLIONS in future Permanent Fund distributions.**

Questions?

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