



FINANCE FACTS

Understanding State Financial Policy

Oil and Natural Gas

New Mexico is a leading producer of crude oil and natural gas in the United States. Major oil and gas deposits are located in the Permian Basin in the southeast and in the San Juan Basin in the northwest. The energy industry plays a critical role in the New Mexico economy and is an economic driver, both when prices are up and when prices are down.

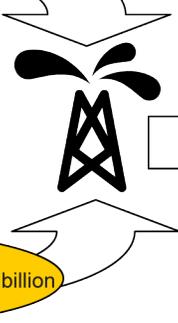
Natural Gas

New Mexico natural gas production accounts for close to one-tenth of the U.S. total. The San Juan Basin gas area is the largest field of proven natural gas reserves in the United States and the leading coalbed-methane-producing region. New Mexico production of coalbed methane, about one-third of the state's total, rivals production in Colorado and is responsible for around three-tenths of all coalbed methane produced in the United States. While coalbed methane production from the San Juan Basin has declined since the late 1990s, new production is under development in the Raton Basin in the Northeastern part of the state.

Although more than two-thirds of New Mexico households use natural gas as their primary source for home heating, less than one-tenth of New Mexico's natural gas is used in the state. The majority of New Mexico's supply is delivered to the West Coast and to market centers in West Texas that supply the Midwest. New Mexico's Blanco Hub, in the San Juan basin, is a major gathering point for Rocky Mountain natural gas supplies heading to West Coast markets. Due to restricted access to markets, particularly the Midwest, the price for New Mexico natural gas is usually lower than the Henry Hub, Louisiana, price used as a national indicator. Sixty-three percent of natural gas production is on federal lands and 16 percent is on state land.

OIL
Production Value - \$4 billion to \$6 billion

Natural Gas
Production Value - \$10 billion to \$12 billion



Direct General Fund Revenue - >\$1 billion
Revenue for Capital Outlay: >\$500 million
Property and gross receipts tax revenue to state and local governments

Most oil and gas revenue is deposited into the general fund. Most years, oil and gas revenue make up about 15 percent of total general fund revenue, although that figure fluctuates depending on economic conditions and the health of the energy industry. Based on a "rule of thumb" for assessing the impact of oil and gas prices on the state's general revenues, a dollar increase in the per barrel price of oil translates into

about \$4 million for the general fund, while a 10 cent increase in the price per thousand cubic feet of natural gas translates into \$10 million in additional revenue.

The taxable value for natural gas is based both on "dry" gas (methane) and natural gas liquids,

such as propane and butane. New Mexico produces lower volumes of liquids from natural gas wells but the price tends to be much higher. The natural gas price in LFC economic forecasts reflects both the market value and the value added through the natural gas liquids premium.

Most of the revenue deposited in the general fund comes from two sources: the oil and gas emergency school tax – a severance tax on oil, gas, helium, carbon dioxide and other hydrocarbons – and federal mineral leasing – money passed on to the state for mining activity on federal land. Although taxes are assessed on all mining activity, income from oil and natural gas overwhelm other mining sources.

Revenue from oil and gas production also supports the state's two permanent funds. The royalties collected from mining and other activity on state trust land, set aside at the time of statehood, are distributed to the land grant permanent fund. The State Investment Council is responsible for investing the fund and 21 trust land beneficiaries, such as public schools and hospitals, receive interest payments each month based on the income generated by the land in their specific trust. The beneficiaries also receive payments from leases, rentals and other renewable uses of the trust land. The common school fund, which benefits public schools and is part of the general fund, is the largest trust beneficiary.

The severance tax permanent fund is funded by taxes on the extraction of oil and gas, primarily, but also other minerals such as coal and copper. The revenue is used to retire debt for government projects. The State Investment Council also invests the severance tax permanent fund. At over \$14 billion, the two funds make up one of the world's largest educational endowments.

Oil

New Mexico crude oil output is typically just over 3 percent of the annual U.S. total. The Permian Basin, mainly in West Texas, is one of the most productive areas in the United States and contains three of the 100 largest oil fields. New Mexico has three oil refineries in Artesia, Bloomfield and Gallup. New Mexico also uses several petroleum product pipelines to connect the refineries to state and area markets. Giant Industries purchases almost all of the San Juan Basin's oil, refining it into gasoline and diesel at facilities in Bloomfield and Thoreau.

Since N.M. crude oil has a higher sulphur content — it's called "heavy" crude — it requires additional processing and attracts a lower price. Over the last three years, the price has been slightly behind the price for West Texas Intermediate, the national indicator. Forty-two percent of oil production is on federal land and 38 percent on state land.

Revenue

New Mexico receives about \$2 billion in direct revenue from oil and gas production through severance taxes, property taxes, and royalty and rental income. Additional indirect income comes from sales and income taxes on oil and gas drilling and service, which generate about \$300 million.

In addition to these taxes, New Mexico collects royalties from oil and gas production on federal and state land and imposes property taxes both on the assessed value of the products severed and sold and on the production equipment.

For More Information:

- Consensus general fund revenue estimates for severance taxes and rents and royalties can be found at the state Board of Finance website: www.board.nmdfa.state.nm.us
- National and state data on energy production can be found at the U.S. Department of Energy's Energy Information Administration: www.eia.doe.gov
- Information on energy regulations may be found at the U.S. Federal Regulatory Commission website (www.ferc.gov) or the N.M. Energy, Minerals and Natural Resources Department's Oil Conservation Division website (www.emnrd.state.nm.us/ocd/).