



State Land Office
FY 2022 Budget Request

Legislative Finance Committee

November 18, 2020

Commissioner of Public Lands
Stephanie Garcia Richard

**OPEN
FOR
BUSINESS**

**Agriculture
Land Stewardship
Renewable Energy
Outdoor Recreation
Oil, Gas and Minerals
Business Development**





New Mexico State Land Office

- Agency budget (including capital outlay and specials) is paid from State Land Office earnings (**not General Funds**).
- State Land Office revenue exceed a record **\$2 billion** in FY19/FY20, reducing the tax burden for working families and financing public schools, universities, and hospitals across the state.



The Land Office is comprised of 175 employees in the main Santa Fe office and 11 District Offices throughout the state (Albuquerque, Carlsbad, Clovis, Farmington, Hobbs, Las Cruces, Logan, Moriarty, Roswell, Silver City, Socorro)



Commissioner Priorities

- Maintain agency operations while protecting the health and safety of the public and employees
- Advance renewable energy projects
- Create outdoor recreational opportunities
- Enhance environmental and cultural protections
- Protect taxpayers and beneficiaries from having to cover oil and gas reclamation and legacy costs (adequate bonding)
- Streamline business operations
- Engage communities; build partnerships
- Diversify and maximize revenue generation
- Fill key vacancies tied to revenue generation (e.g., royalty auditors)





FY20 Accomplishments

- Exceeded \$1 billion in earnings for the second consecutive year
- Executed 8 new renewable energy leases (total life-time project revenue of over \$80 million)
- Remediated 76 sites where spills/releases occurred
- Expanded the agency's outdoor recreation program; issued 484 Recreational Access Permits, an increase of 200% over previous average
- Created greater access for sportspeople, including 67 new Game and Fish access points, additional camping sites, and new pilot dispersed camping programs in Luera Mountains and White Peak areas
- Formalized satellite imagery program aimed at identifying trespass and spills; \$2.7 million to be recouped where trespass was identified





FY20 Accomplishments (cont.)

- **Increased oil and gas royalty** collections by approximately 20% over FY19 (record)
- **Obtained reclamation** on 13 previously mined and un-reclaimed caliche pits
- **Completed 35 projects in 18 counties**, treating tens of thousands of acres to prevent wildfires, restore habitat, improve watershed health, and address illegal dumping
- **Spearheaded legislation (HB 176)** allowing the State Land Office to more effectively partner with local governments on economic development projects
- **Resolved the Katerina litigation**, re-acquired 640 acres of former state trust land in Dona Ana County that had been sold to a private land developer in a questionable land deal in 2007
- **Decreased vacancy rate** from 22% to 6% (Royalty Audit Division from 45% to 15%)



COVID-19 Response

- **Promptly responded to economic and budget challenges related to the pandemic**
 - Achieved approximately \$286,000 in savings in FY20 (March – June) after economic downturn hit
 - FY21 operational budget being managed to achieve additional savings
- **Implemented oil “shut-in” rule** to remove penalty for keeping oil resources in the ground during historically low prices; processed 195 applications
- **Maintained responsive customer service level; kept business moving forward**
 - Transitioned to remote work environment while continuing to efficiently process leases and associated revenue
 - Collaborated with companies to prioritize applications that were key to their operations; jobs and revenue generation
 - Authorized payment deferrals where appropriate
 - Provided public access to records room on appointment basis



Agency Challenges

- **Significant uncertainty in the oil and gas sector**
- **Fewer premium oil and gas tracts available for leasing**
- **Inadequate statewide bonding** for appropriate reclamation/remediation
- **Enforcement capacity** to ensure amounts owed by companies are fully collected and that lands are not subject to trespass, waste, or degradation
- **Revenue diversification** so funding streams are not as highly dependent on one economic sector

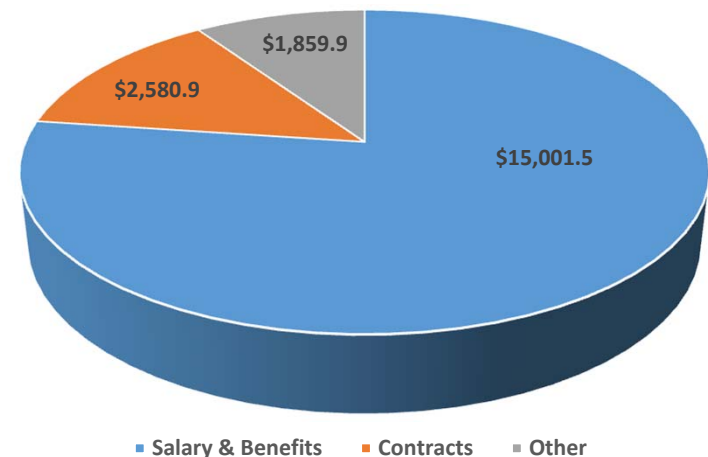




Budget Request Overview

- Operations are funded through the revenue the agency generates (**not General Funds**)
- \$19,442.3 **base request** represents an 1% overall **decrease** from FY21 (- \$201.3)
- **Cuts include** a 12% reduction to Contractual Services and a 2.4% decrease in the Other category (e.g., equipment, -43%; IT equipment, -52%)
- Slight increase to Salary & Benefits due to increases in mandatory PERA contribution rate, workers' compensation (+87%), and unemployment insurance (+61%); **maintains existing staffing level**

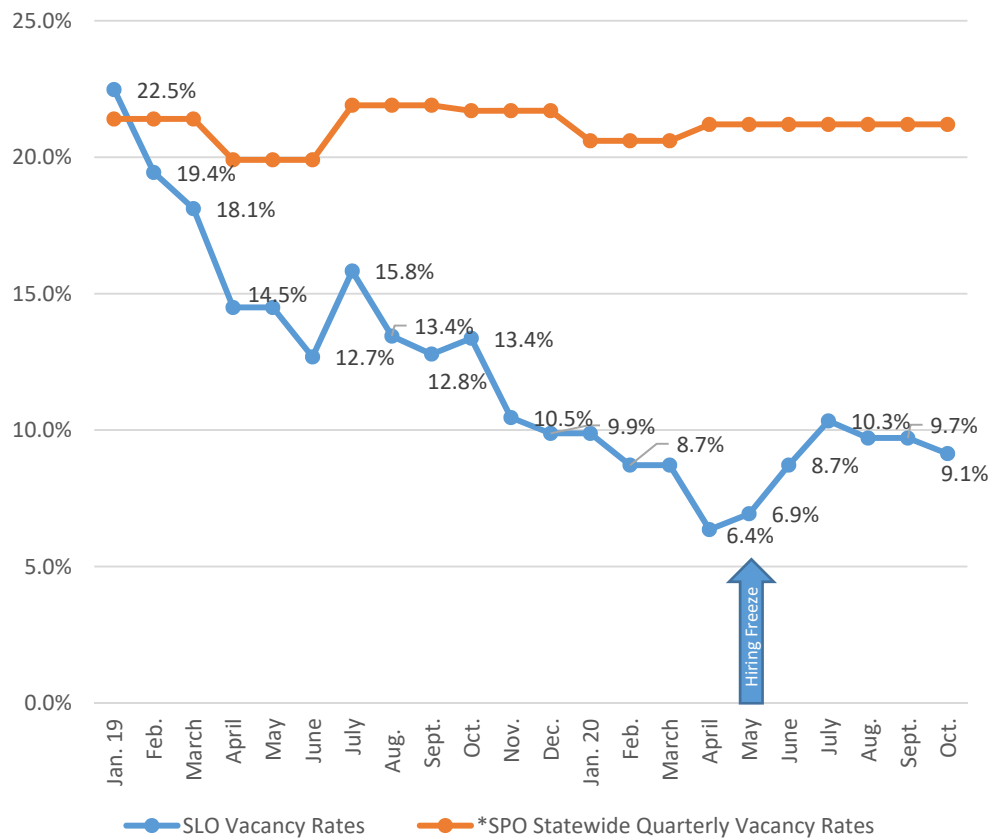
FY22 Budget Request by Use





Vacancy Rate Reduction

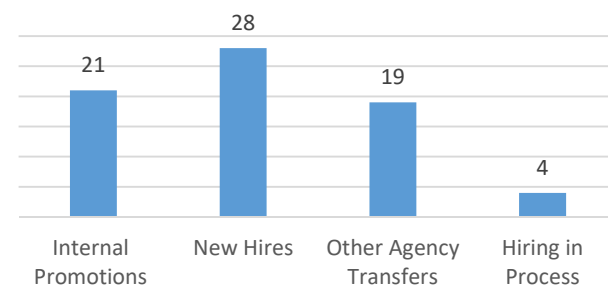
SLO v. State Vacancy Rates by Month



Current Vacancies	
Total Positions	175.1
Classified Vacancies	14
GOVEX Vacancies	2
Total Vacancies	16
Filled FTE	159.1
Vacancy Rate	9.14%

Status of Vacant Positions	
Currently Advertised	3
In the interview Process	1
Pending SPO/DFA Approval	3
Pending SLO Action	9

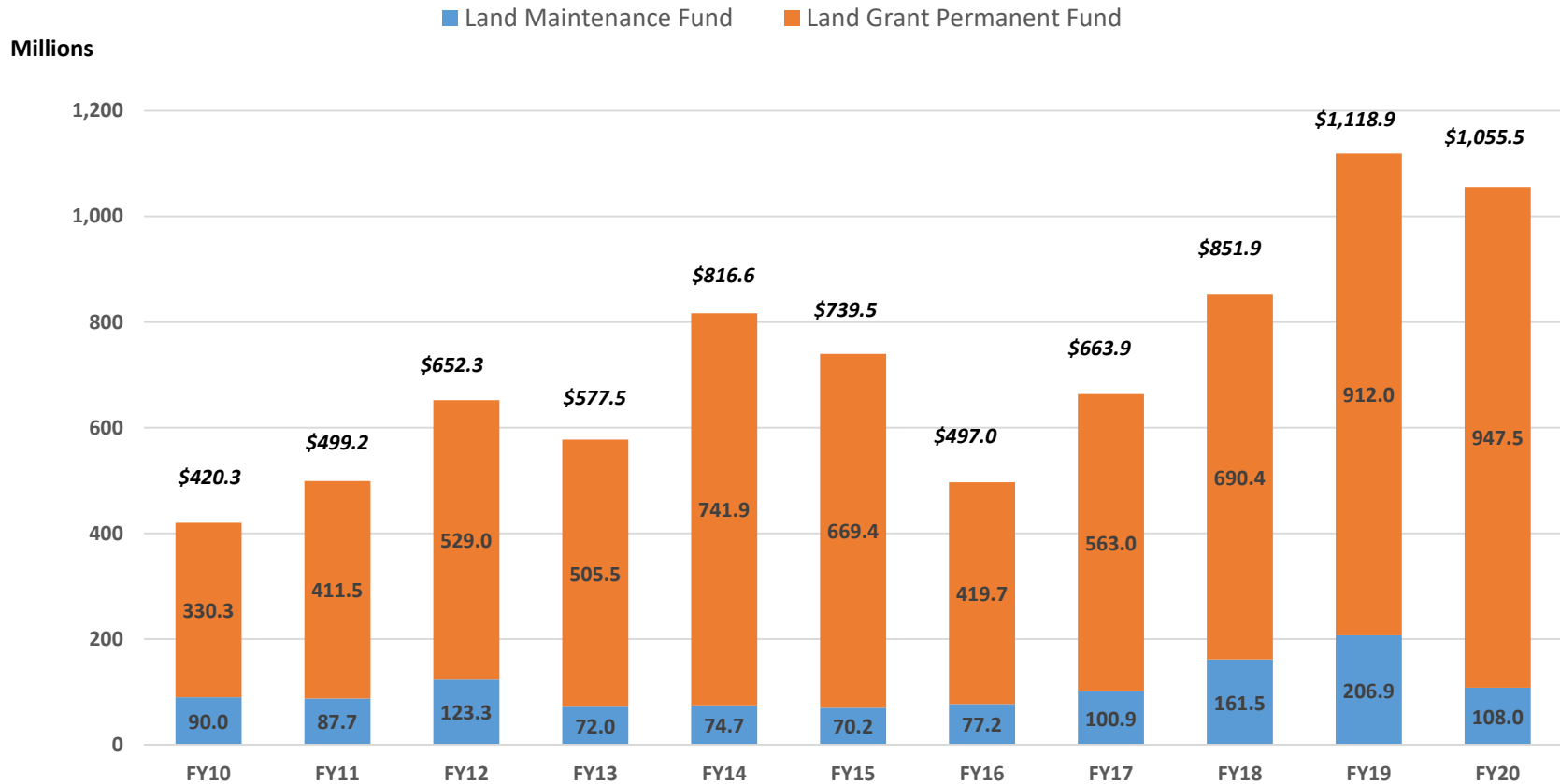
72 Positions Advertised Since January 2019





State Land Office Earnings By Year

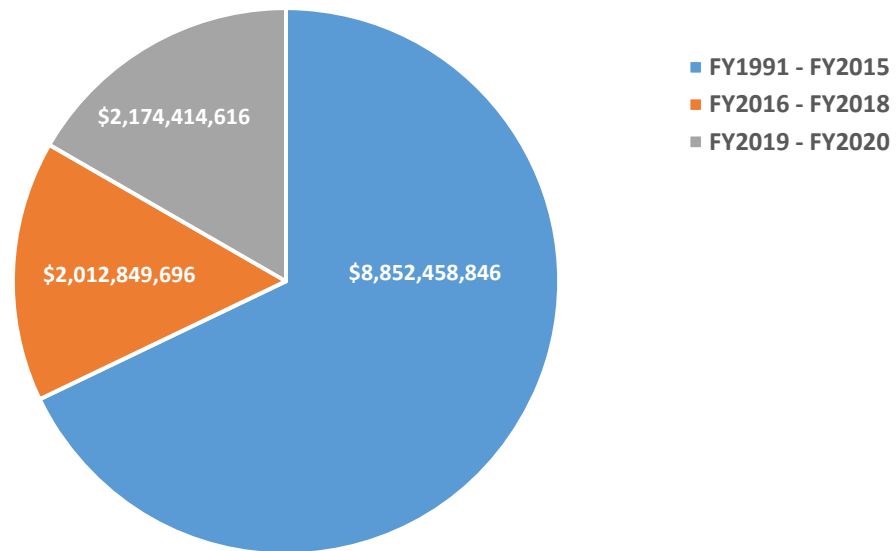
State Land Office Earnings by Year





Record Revenue

**Over the Last 30 years, 32% of Total NMSLO Earnings
Were Generated in the Last Five Years;
17% Over the Last Two Fiscal Years**



Share of Total Earnings from FY1991 to FY2020



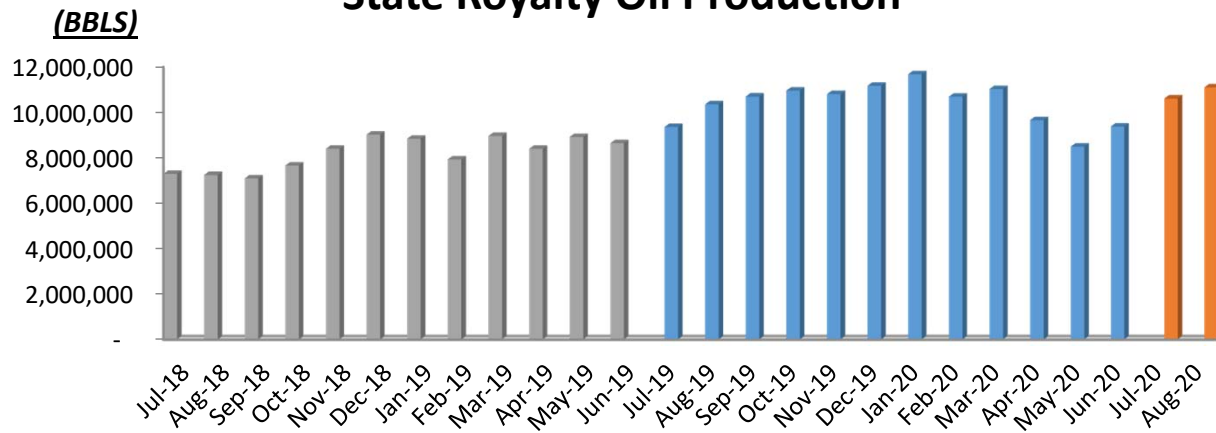
Revenue Projections

- **FY19 and FY20 represented the highest earnings on record (\$1,118.9 billion and \$1,055.4 billion, respectively)**
 - FY17 (\$665 million) / FY18 (\$852 Million)
- Even with continued uncertainty FY22 revenue conservatively projected to be \$736 million
 - Projection based on average monthly oil production of 8.5 million bbls with an WTI average of \$38
 - 8.5 million bbls level used reflects the most recent low (May of 2020) even though monthly oil production has since recovered to over 11.1 million bbls
 - Average monthly gas production is projected at 30 million mcf at \$1.45
- Oil and gas monthly lease sale “bonus” earnings (Land Maintenance Fund) projected to decline as fewer premium tracts are available for leasing



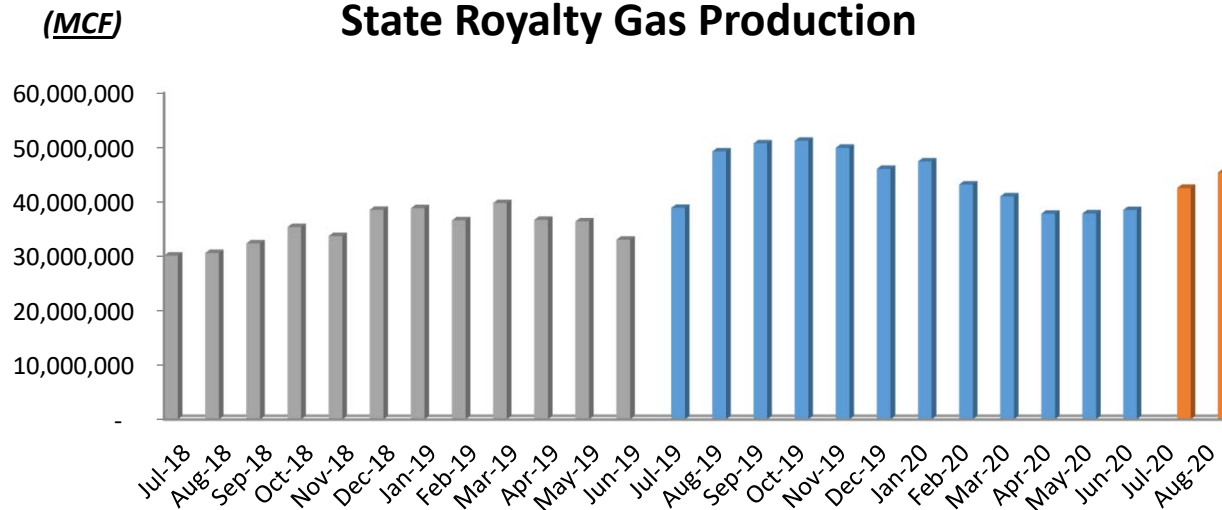
State Land Office Oil & Gas Royalty Production

State Royalty Oil Production



- Royalty production reporting reflects a lag of three months

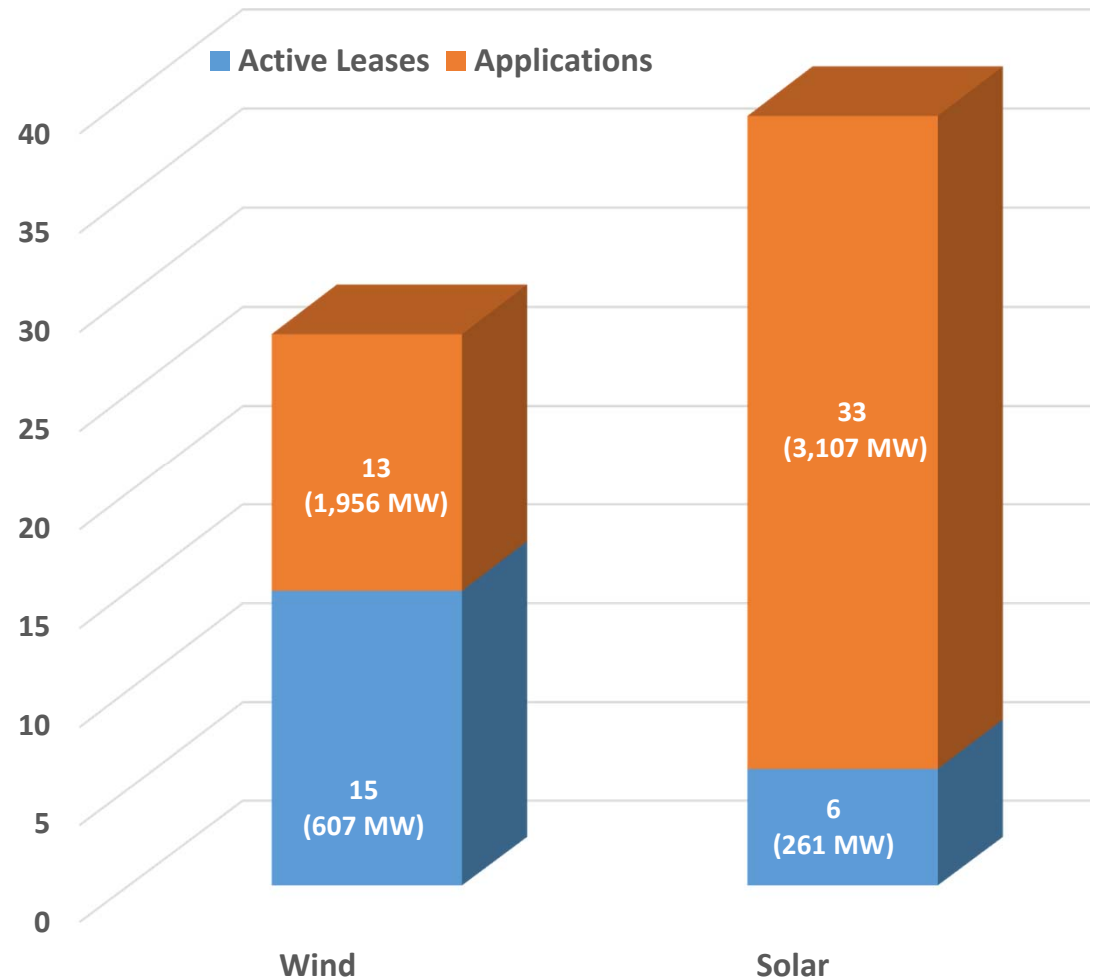
State Royalty Gas Production





Renewable Energy Projects

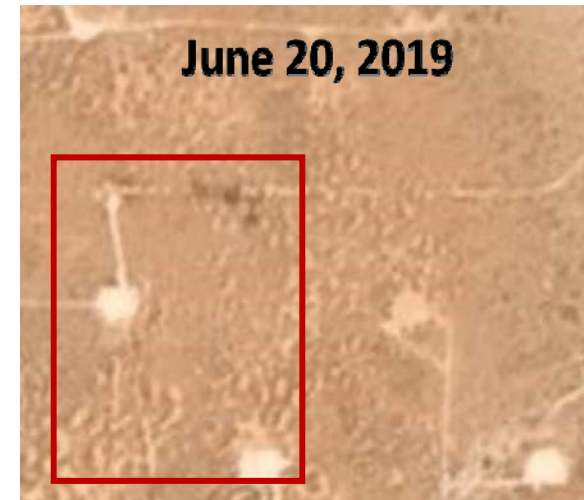
- Established the first ever Office of Renewable Energy in 2019
- Dedicated staff focused on revenue-generating, clean energy projects
- **In first 18 months, signed a record eight new wind leases totaling \$80 million in lifetime project earnings**
- High level of interest in state trust land; significant continued growth potential in pending applications





Using Satellite Imagery to Identify Trespass and Spills

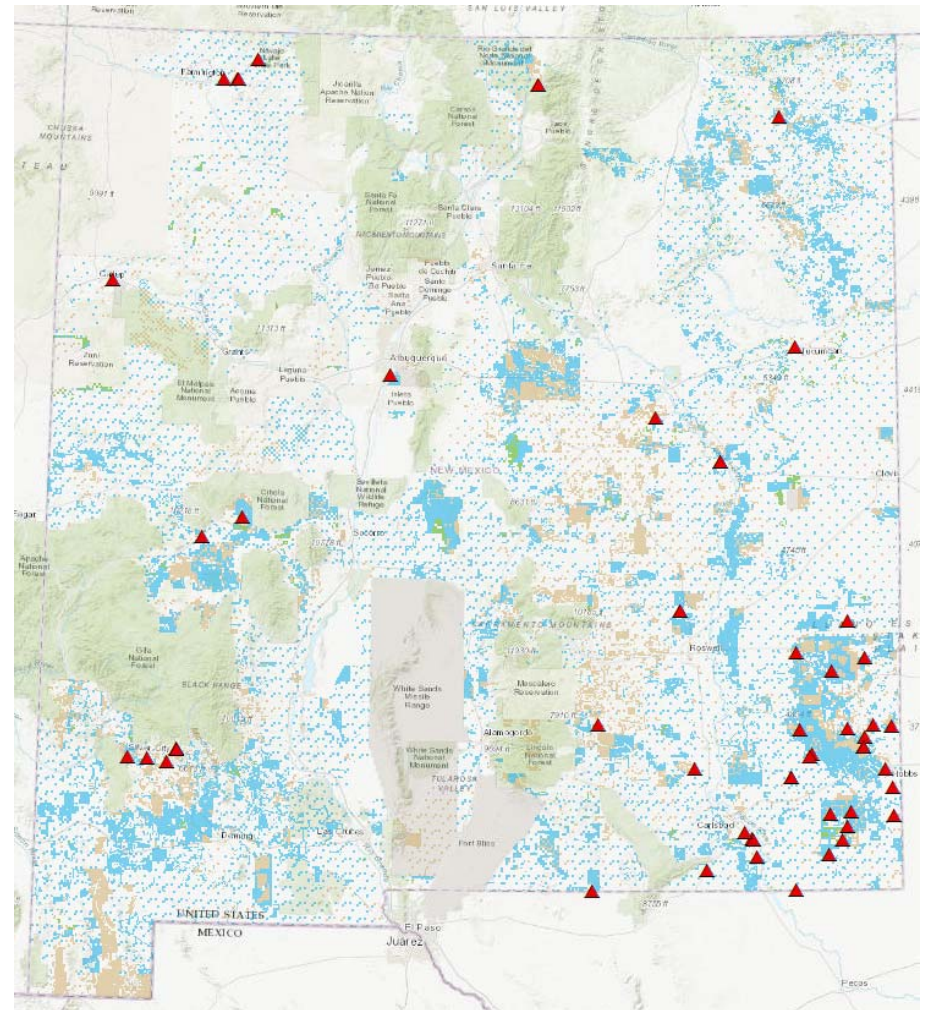
- SLO has historically struggled with ensuring appropriate oversight of 13 million acres of trust land with limited staff
- Commissioner Garcia Richard launched a successful pilot program with Planet Labs to use daily satellite imagery and data analytics to identify spills, trespass, and assist with application processing and closeout
- Legislature provided FY21 funding to institutionalize the program and develop automated change detection technology
 - Automated change detection for mining violations, construction without permits, spill detection/tracking, illegal dumping, site remediation
 - Integration with additional data to support enhanced oil and gas auditing (partner with TRD/OCD)





Results: Accountability and Revenue

- In year one on the pilot program, SLO identified 53 trespasses
 - \$2.7 million in recouped revenue
- From the 53 trespasses
 - 22 have resulted in new leases
 - Generating \$800,000 (and growing) in new revenue
 - All new leases will be reclaimed at the lease end

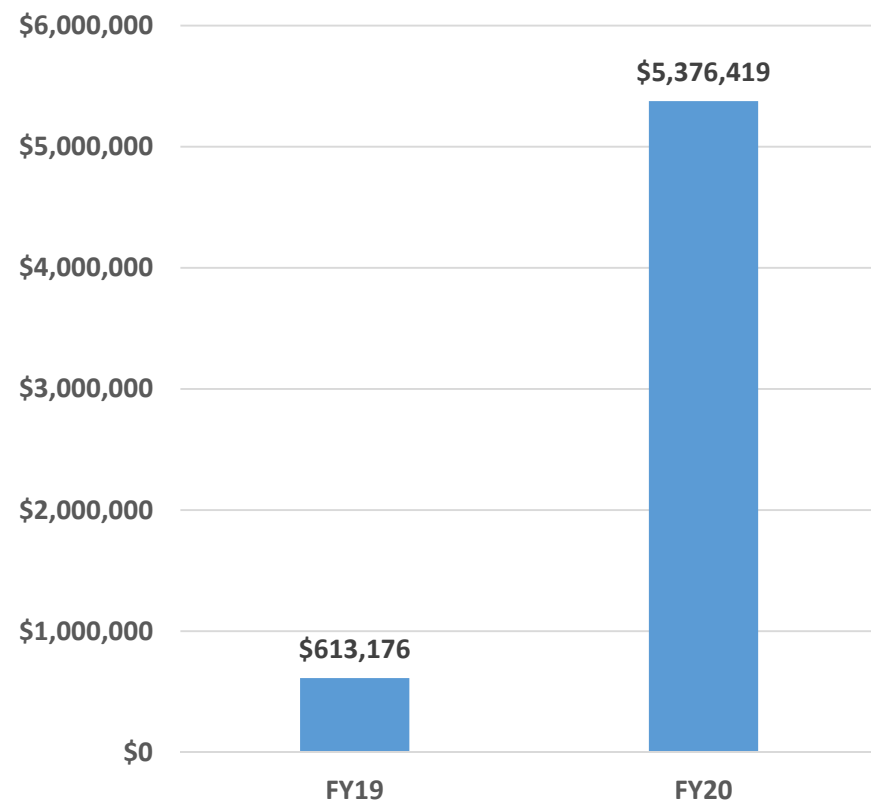




Trespass Recoveries

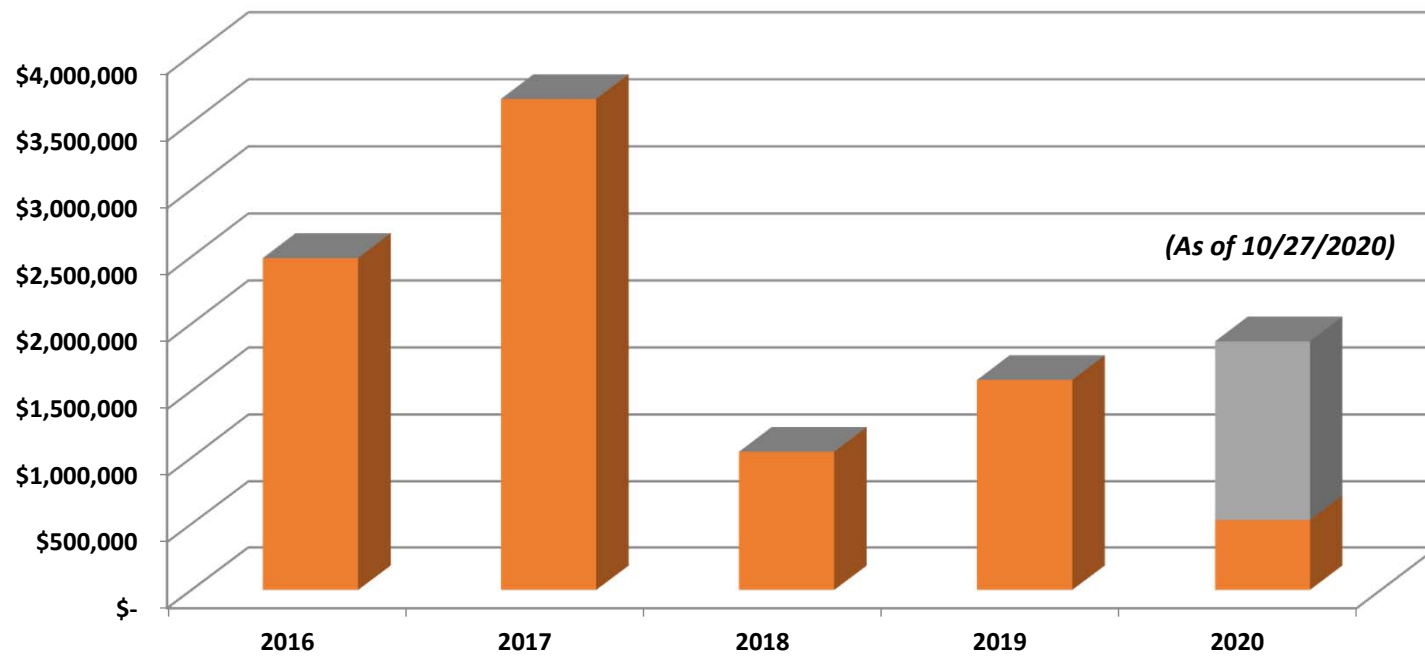
- Commissioner has prioritized efforts to ensure every dollar owed to beneficiaries, goes to beneficiaries
- Emphasis resulted in a **776% increase** year-over-year in revenue collected from trespass cases

Trespass Revenue by Fiscal Year





Audit Collections by Calendar Year



Note: Royalty Audit Division vacancy rate was 45% as of January 2019, which has been reduced under 15%; audit collections and assessments for 2019 and 2020 have surpassed 2018 by 51% and 79% respectively.

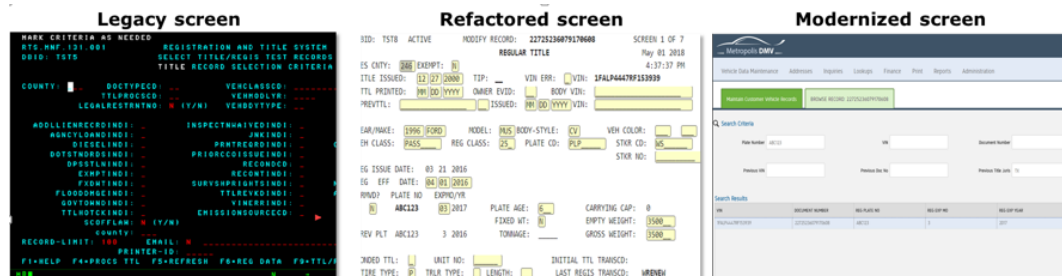
■ Royalty Collections ■ Royalty Assessments



C2 Request - RAPS

Revenue Accounting and Royalty Processing System (RAPS) - \$868,000 in Other State Funds (OSF)

- Phase I ONGARD modernization project nearing completion – remove from mainframe and achieve 1-1 functionality in new, modern IT system (January 2021)
- Phase II FY21 appropriation to enhance system functionality and improve revenue generation (interest calculation automation, lease volume reporting, interface with OCD, and enhanced audit functions) is underway
- FY22 request adds component to Phase II modernization
 - Integrate existing IT systems (LIMS, ONGARD RAPS, credit cards) with a unified accounts payable management system
 - Current difficulty managing and reconciling accounts payable across the various divisions and systems





Supplemental Materials



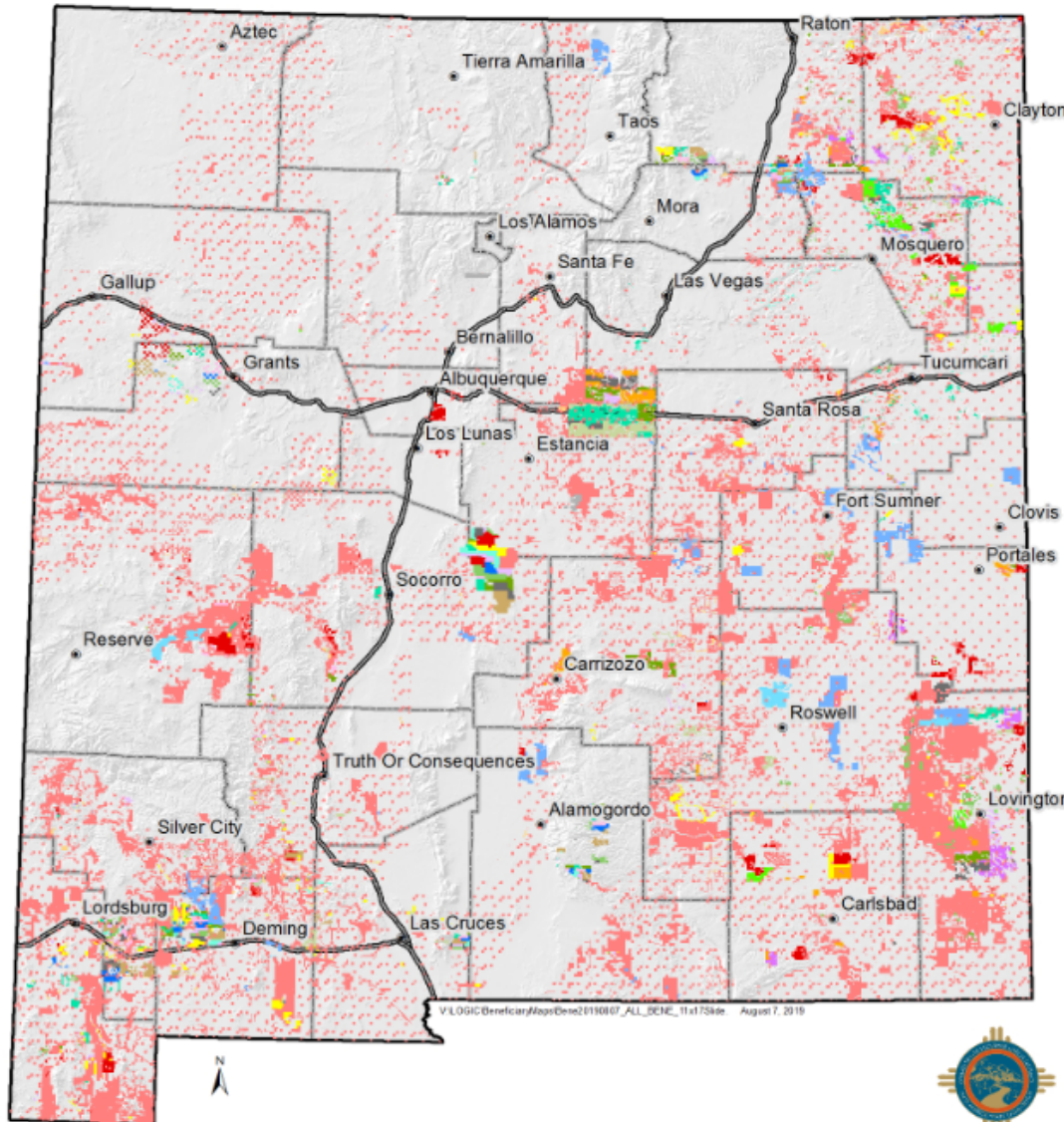
What We Do

- Energy development (oil, gas, wind, solar, geothermal, etc.)
- Agriculture (8.8 million acres)
- Mining (sand and gravel, etc.)
- Science and tech and parks (Sandia, West Mesa)
- Affordable housing (Tierra Madre)
- Recreational uses (golf course, trails, state parks, Bern.co. amphitheater)
- Mixed use planned communities (Mesa del Sol, Rio Rancho, Las Cruces)
- Economic development leases (Spaceport, City of Santa Fe, Sandoval County, Lea County)
- Broad array of commercial activities (Walmart, hotel, telecom, etc.)
- Film (Preacher, Midnight Texas, Better Call Saul, Roswell, Army of the Dead, Only the Brave, etc.)





Who We Work For

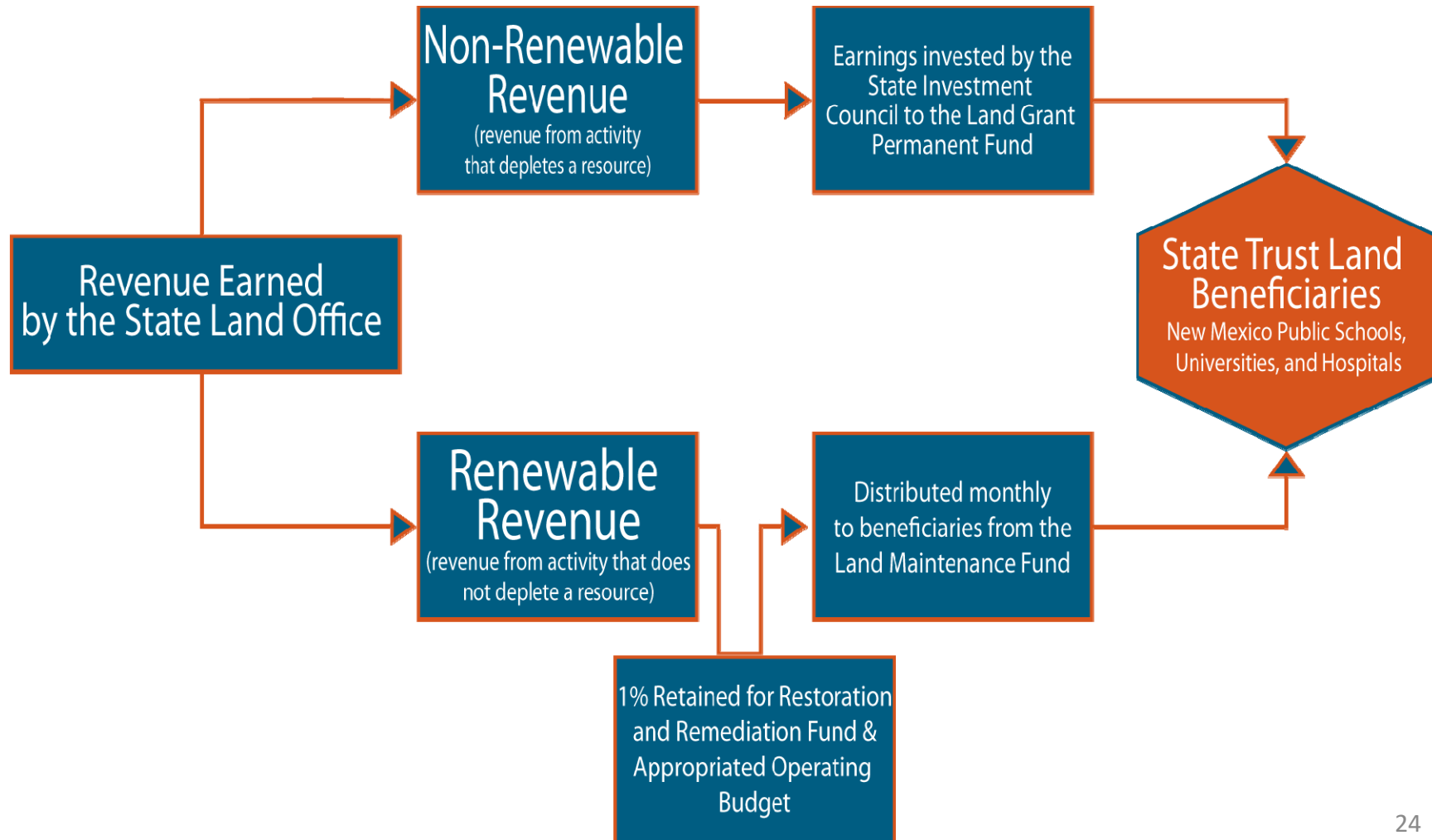


New Mexico Beneficiaries

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

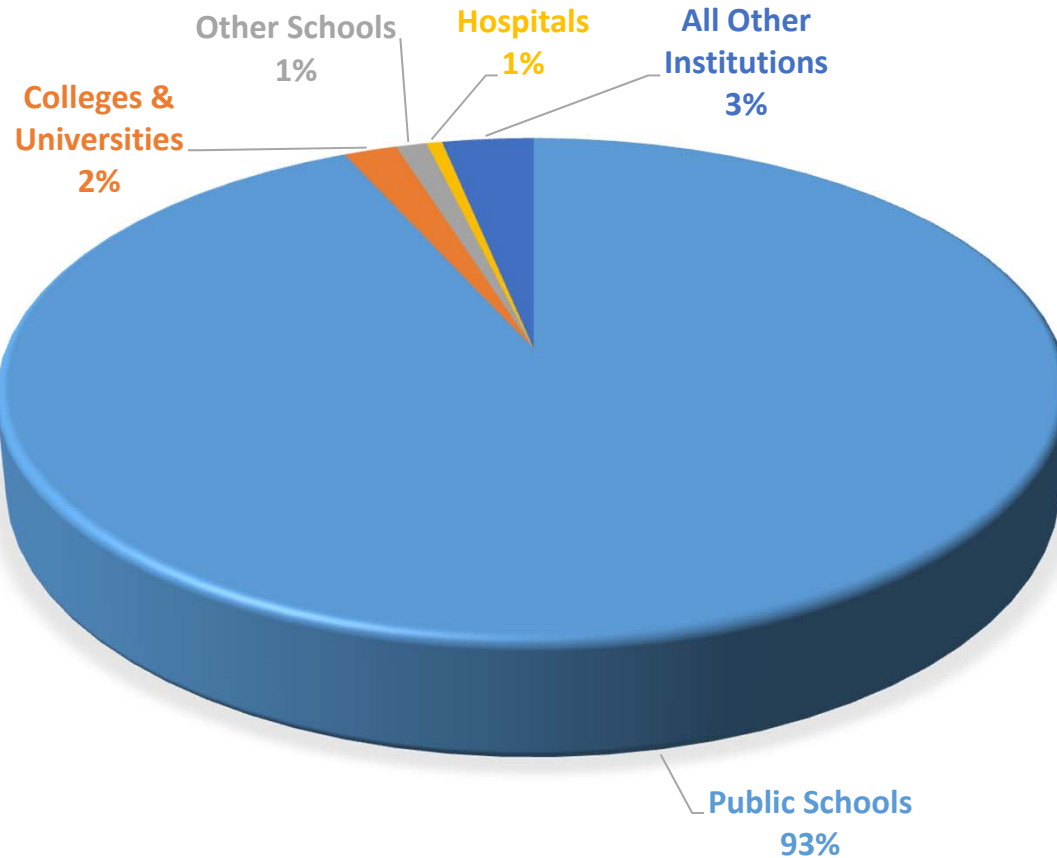


Revenue Distribution





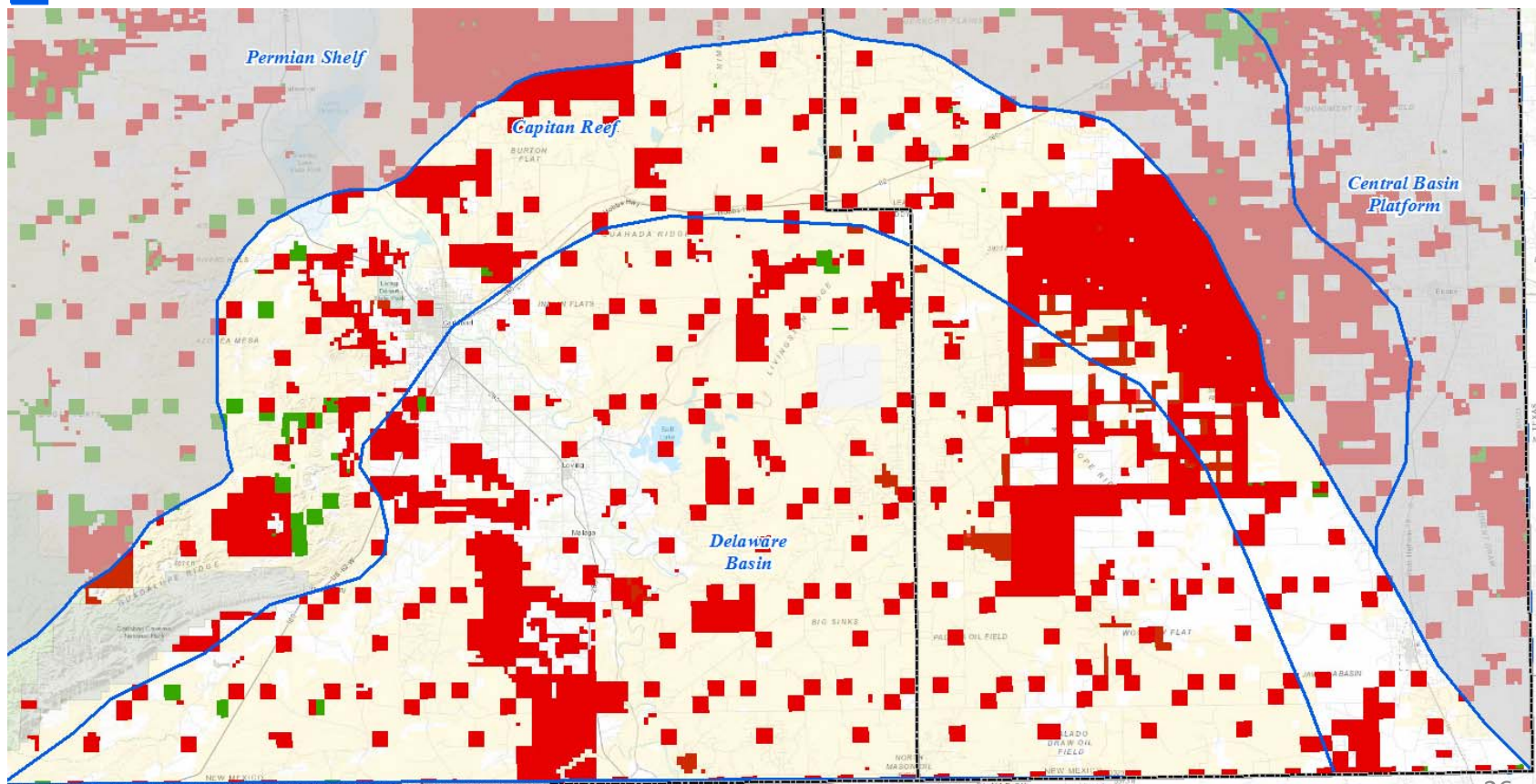
FY20 Distributions by Beneficiary Type





Trust Lands Available for Oil and Gas Leasing – Permian Basin

- Trust Lands Available for Leasing
- Trust Land Unavailable for Leasing
- Oil and Gas Geologic Regions





NEW MEXICO COMMISSIONER OF PUBLIC LANDS

In FY 2019 and 2020, the State Land Office has raised

\$2,174,414,627

for New Mexico public schools, universities, and hospitals!

S T E P H A N I E G A R C I A R I C H A R D