



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

Fiscal Consequences of New Mexico Oil and Natural Gas Production Growth

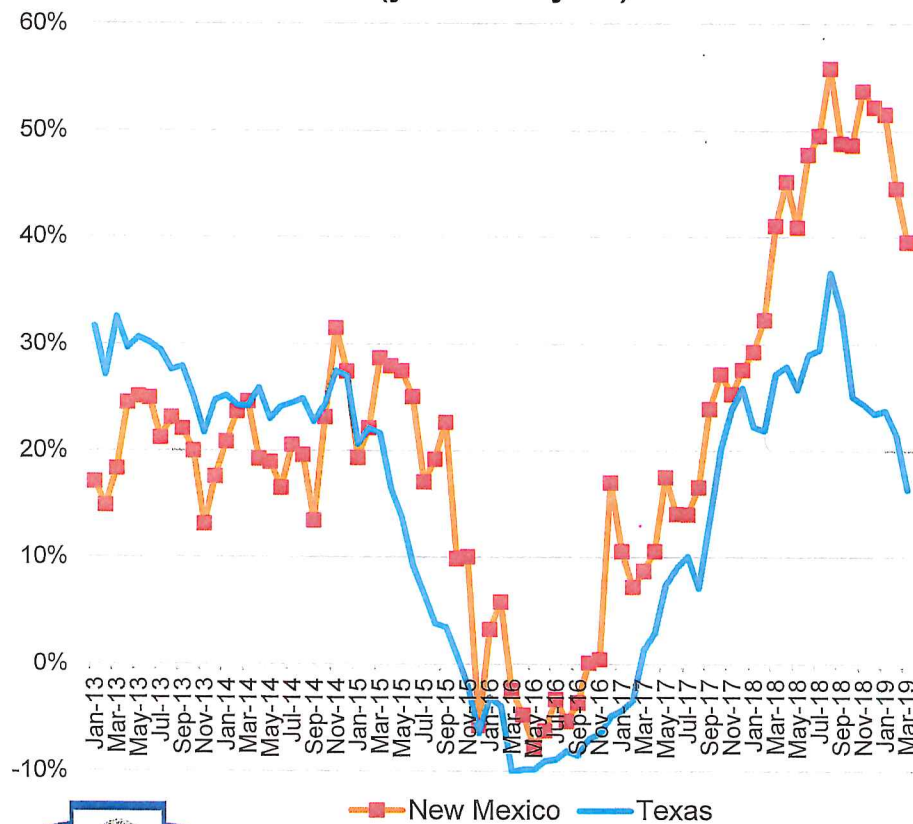
Presentation to the Legislative Finance Committee

Dawn Iglesias, Chief Economist, LFC

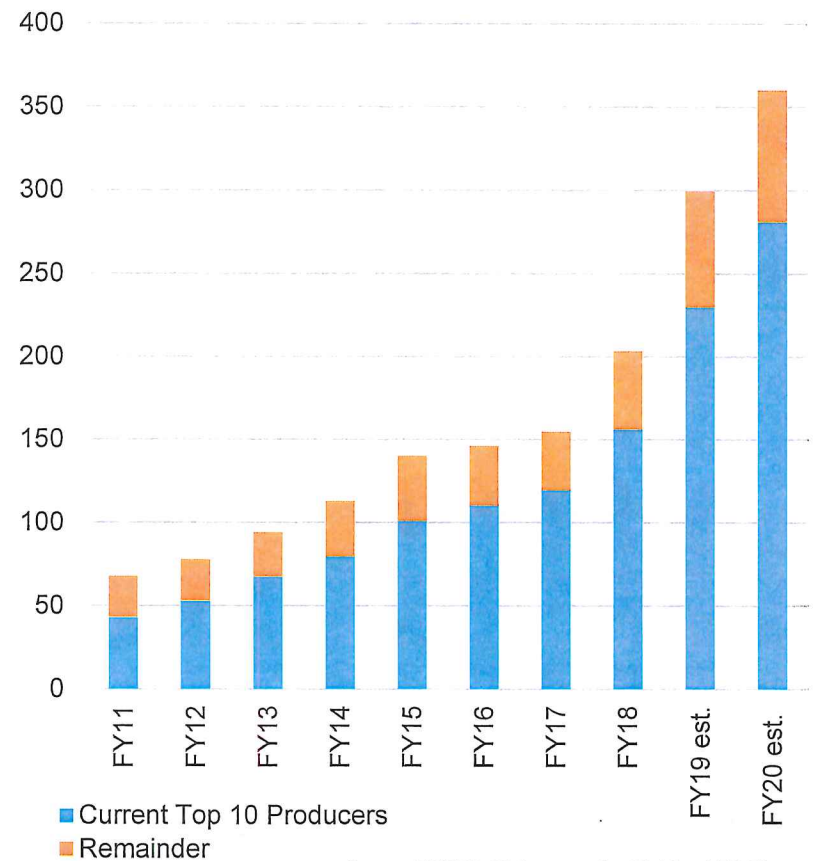
July 10, 2019

New Mexico's oil production growth outpaces Texas, driven largely by the state's top 10 producers. Growth is slowing but remains high.

State Oil Production Growth Rates (year-over-year)



New Mexico Oil Production (million barrels)

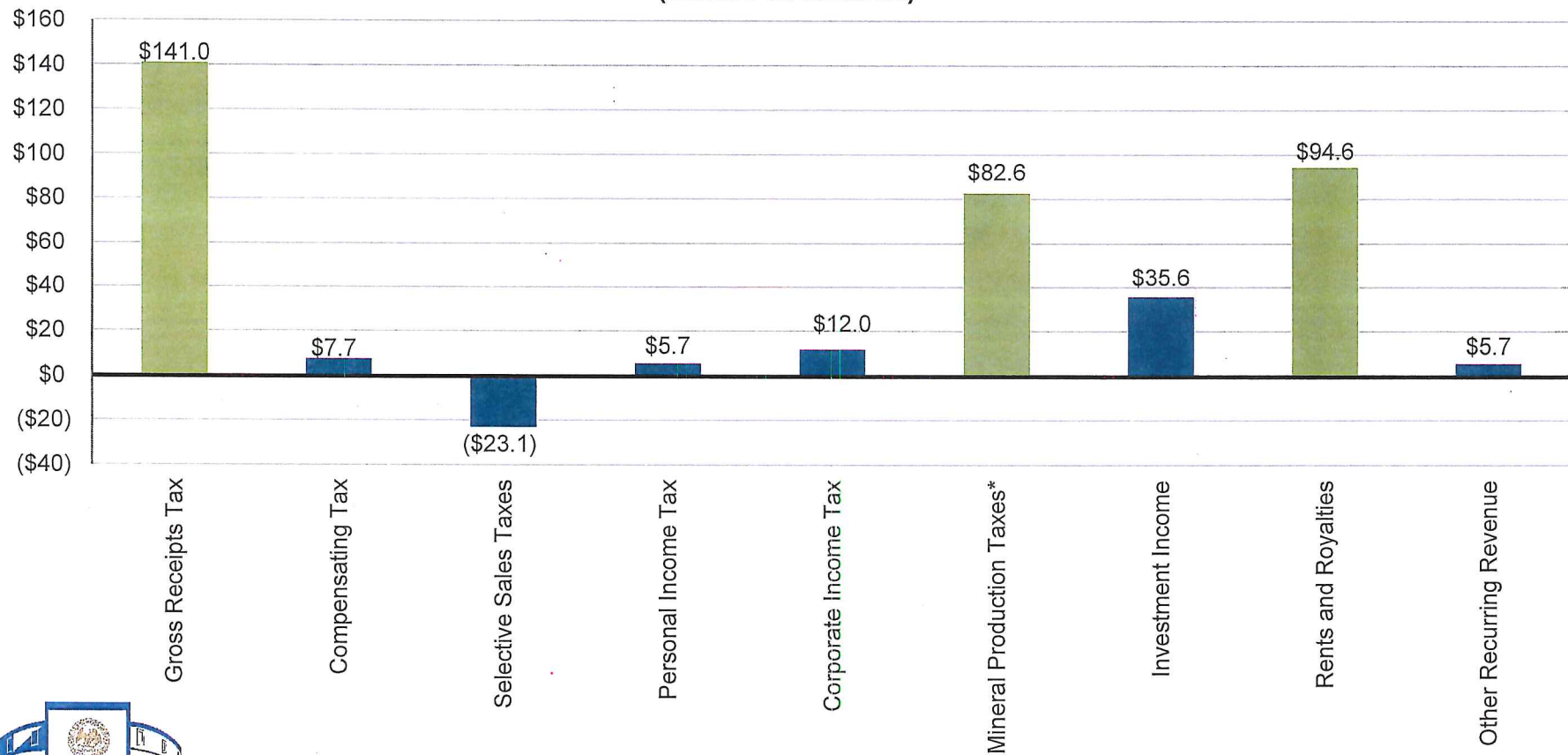


Source: U.S. Energy Information Administration

Source: EMNRD Oil Conservation Division; LFC Files

Revenues exceed expectations as boom continues.

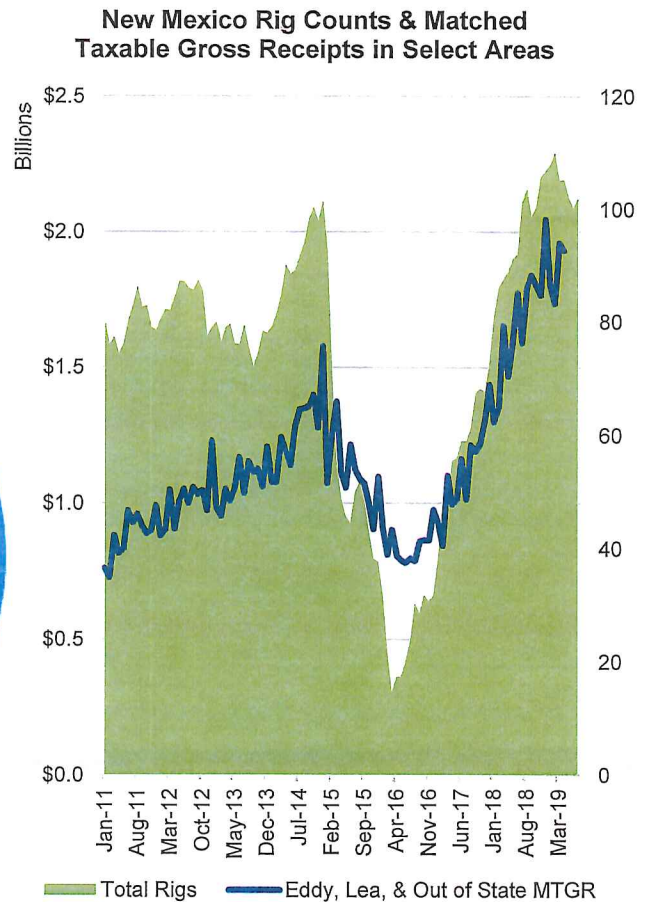
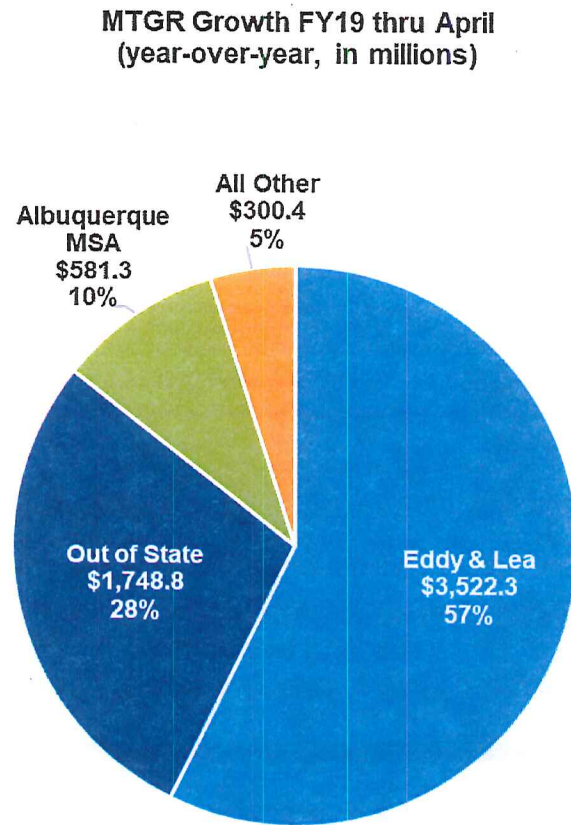
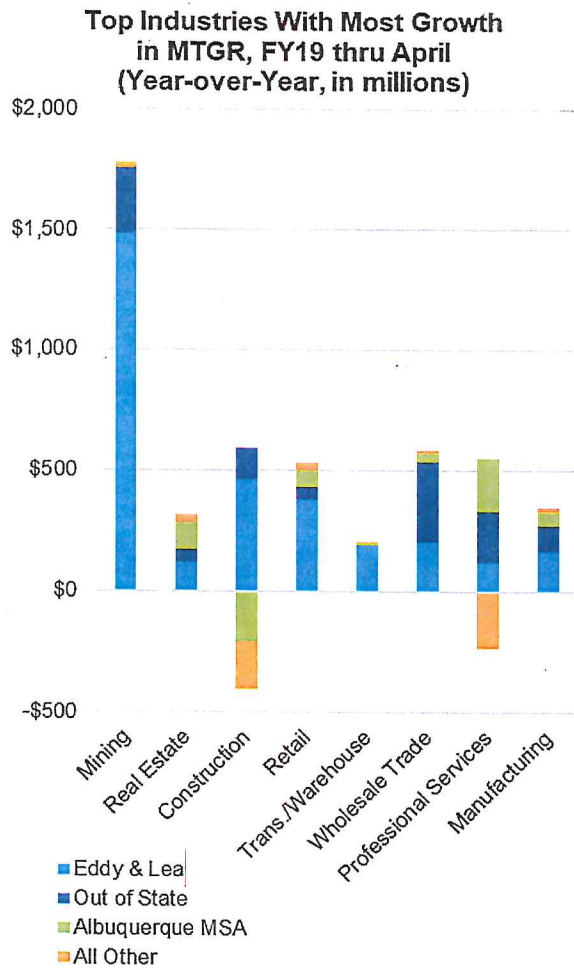
FY19 Revenue Tracking vs. Forecast
(dollars in millions)



* Includes Oil and Gas Emergency School Tax revenues going to general

Source: DFA General Fund Report, LFC Files

Eddy and Lea counties and out-of-state receipts are producing most of the growth in matched taxable gross receipts (MTGR) across numerous industries. Rig counts are the primary driver of MTGR in these areas.

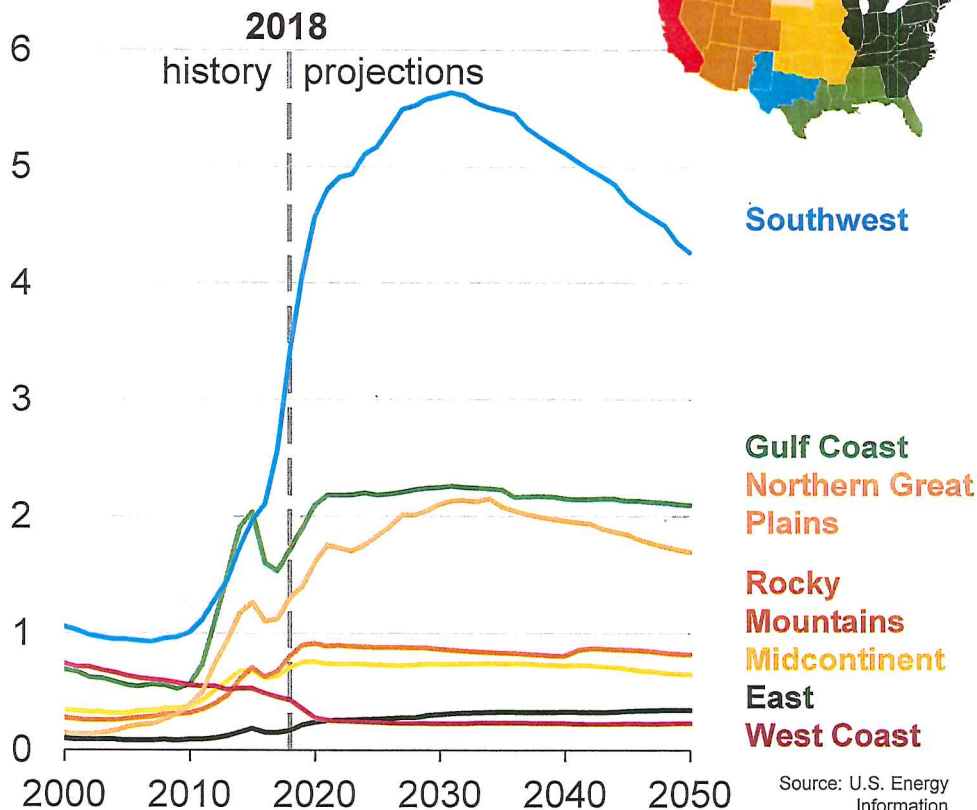


Source: Baker Hughes, RP 500

How long will oil and natural gas production growth last?

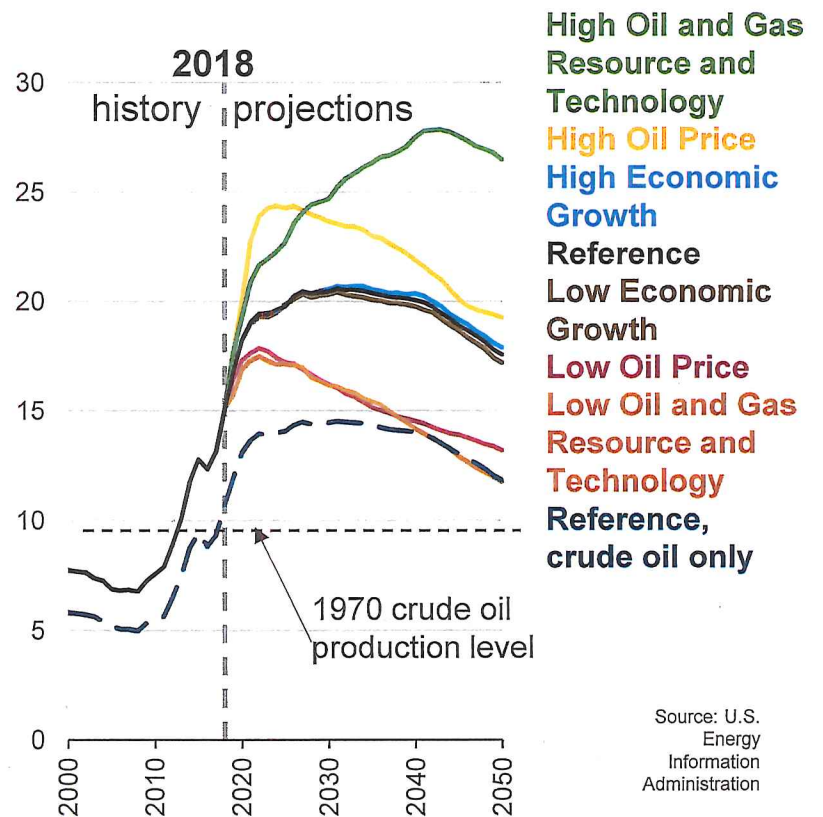
Lower 48 onshore crude oil production by region (Reference case)

million barrels per day



U.S. crude oil and natural gas plant liquids production

million barrels per day



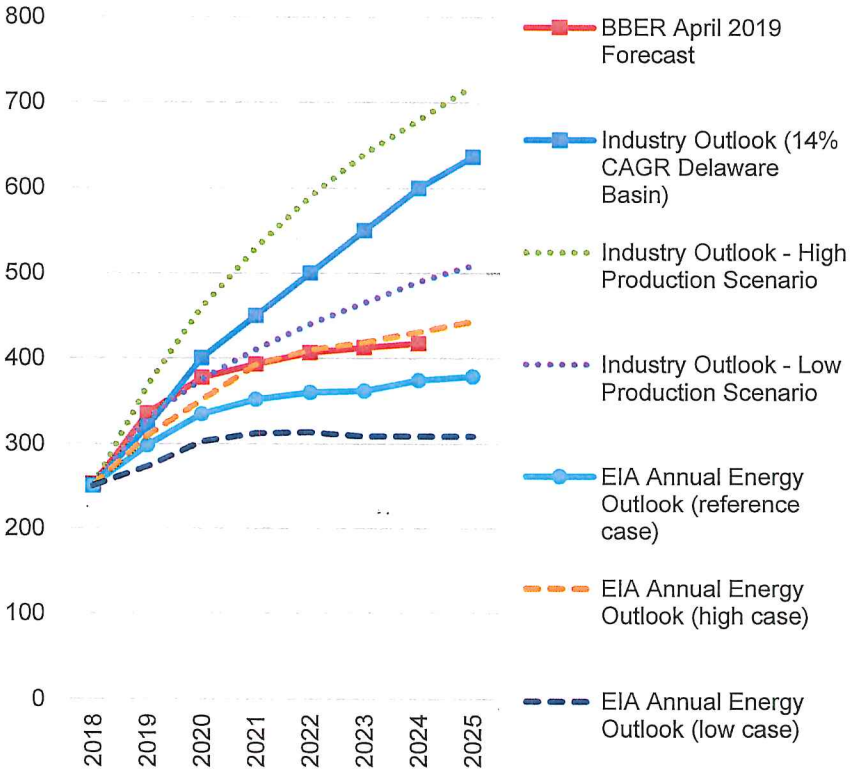
What does this mean for New Mexico's general fund revenue outlook?

- FY19 revenues are tracking about \$280 million above the December 2018 consensus forecast.
 - If this holds, general fund FY19 ending reserve balances would be about 25 percent.
 - Transfer to “rainy day fund” from excess oil and gas emergency school tax revenue of about \$200 million, up from the \$123 million projected in the forecast.
- Additional FY20 revenue above the prior forecast could mean additional funding for non-recurring uses or higher reserves.
- Based on the December 2018 forecast for FY21 recurring revenue, “new money” above FY20 recurring appropriations would be about \$580 million – this figure is expected to increase in the August 2019 consensus forecast.

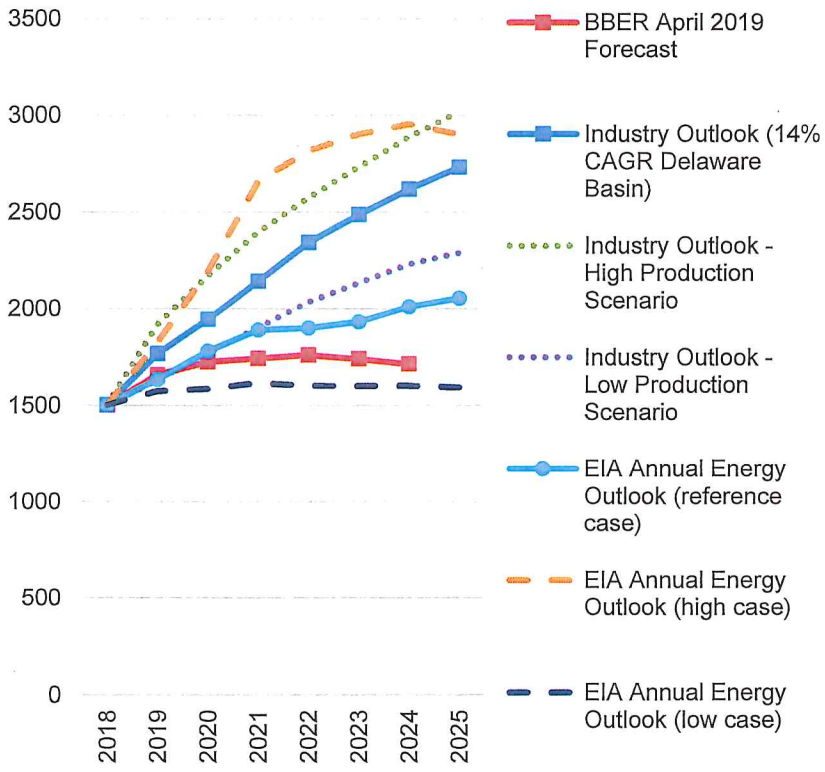


Significant variance in production growth outlooks creates future fiscal uncertainty.

New Mexico Oil Production Outlook Scenarios (million barrels)



New Mexico Natural Gas Production Outlook Scenarios (billion cubic feet)

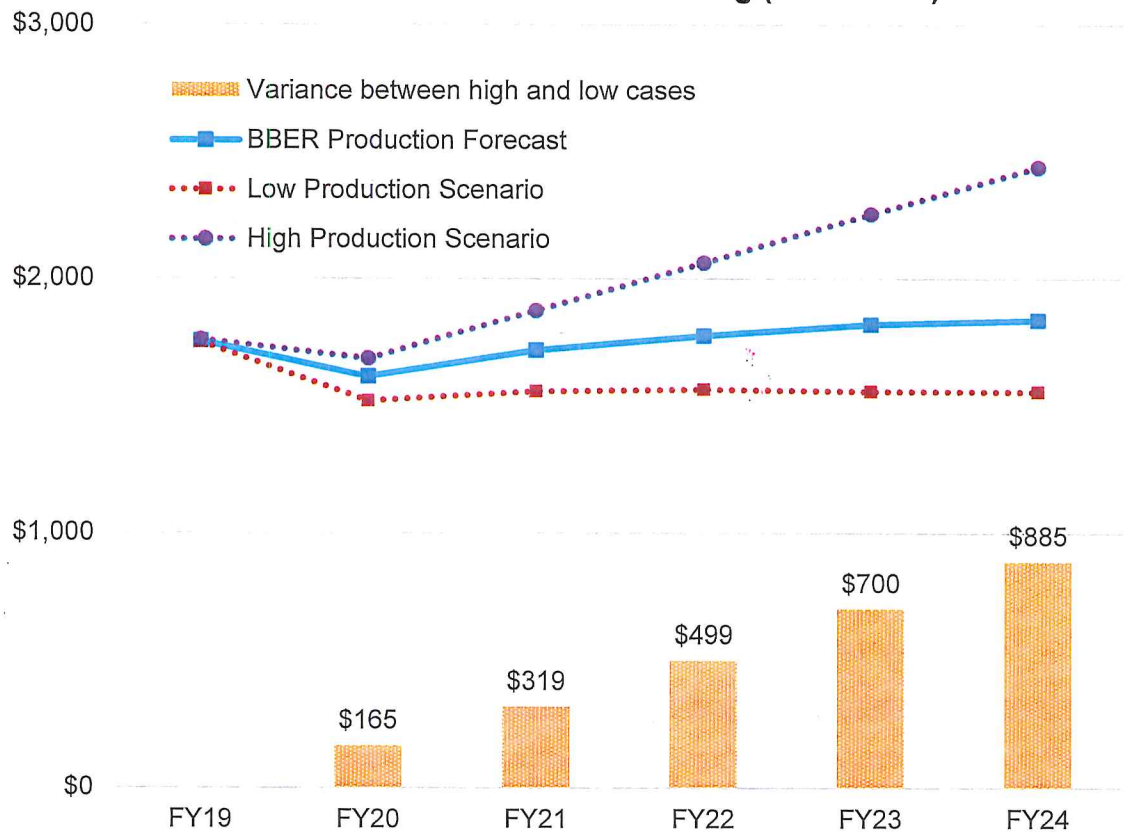


Sources: LFC analysis based on regional growth projections from Permian Strategic Partnership (November 2018), Energy Information Administration (2019 Annual Energy Outlook), and UNM Bureau of Business and Economic Research (April 2019)

Even with flat prices, large variance in production outlook means large differences in general fund energy revenue outlook.

- Potential for significant growth in value-based energy revenues over next 5 years, or revenues could flatten
- Variance is higher when considering gross receipts tax revenues or price changes

General Fund Energy Revenue Scenarios - Production Taxes & Federal Mineral Leasing (in millions)



Note: Scenarios assume New Mexico oil price of \$55 per barrel



When considering potential price changes, variance in high and low production scenarios increases significantly.

- How does the state appropriately plan for the variety of potential outcomes?
 - Demonstrates the importance of responsible budgeting, mitigating revenue volatility, and performing ongoing sensitivity analysis of general fund revenues

General Fund Energy Revenue Scenarios - Production Taxes & Federal Mineral Leasing (in millions)

