

## Oil and Gas Outlook

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### Background

- In the last five years, oil- and gas-related revenues—including federal mineral leasing, severance taxes, and industry-related GRT and PIT revenues—have increased threefold.
- Severance tax and federal royalty payments are a significant portion of the general fund's growth forecast for FY23 and FY24, accounting for around 62 percent and two-thirds of growth, respectively.
- Surging gross receipts tax revenues are largely attributable to the industry, with 55 percent of total GRT revenue growth coming from Eddy and Lea counties. Driven by activity in the Permian Basin, GRT revenue is growing increasingly volatile, with an estimated third of all GRT revenue now related to the industry.
- Drilling and completion activity in the Permian Basin picked up in early 2021, grew through the first half of 2022, and stabilized above 100 active rigs on average through FY23. Analysis by Rystad Energy, an energy analytics firm, suggests a rig count of 90 average active rigs is sufficient to maintain current levels of production in New Mexico. As rigs and well completions continue to exceed maintenance levels, New Mexico continues to hit oil production records.

### Long-term Estimate

- As the state enters a short- to medium-term revenue surge, the Legislature has initiated long-term revenue and budget planning in accordance with national best practices. In July 2023, the consensus revenue estimating group found long-term revenues would be sufficient to keep up with the current budgetary trends depending on the rate of recurring spending in the near-term.
- The long-term estimate highlights oil and gas strength as driving current revenues while later becoming a drag on revenue growth as global demand wanes.
- According to Rystad Energy, New Mexico oil production is projected to peak in 2031, plateau, then decline steadily over the next two decades.
- As oil and gas demand decreases, baseline real general fund revenue growth is forecasted to remain positive through FY45, though growth is lethargic and just outpaces inflation.