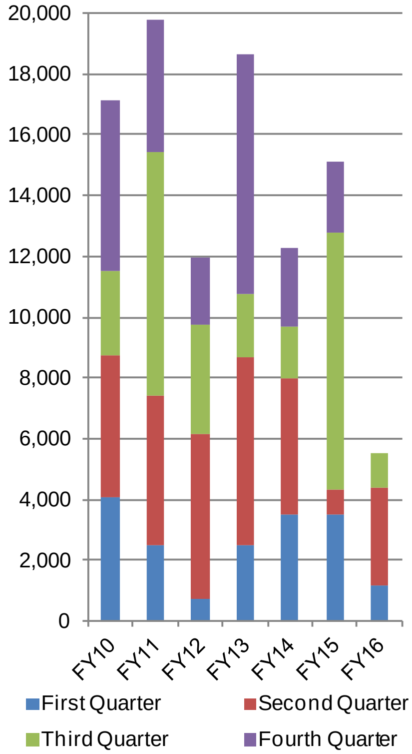
NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

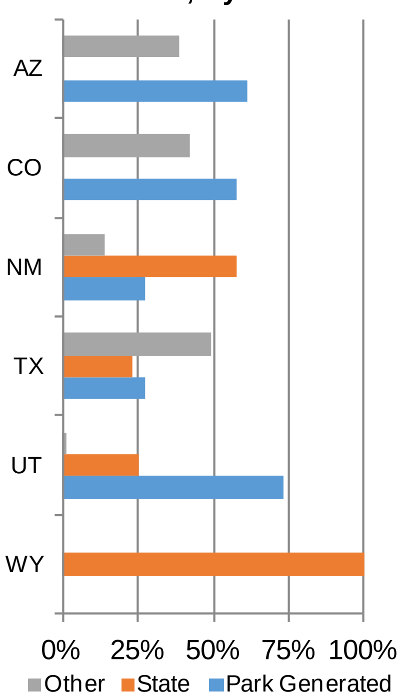
PERFORMANCE REPORT CARD
Energy, Minerals and Natural Resources Department
Third Quarter, Fiscal Year 2016

Forest and Watershed Acres Treated



Source: EMNRD

Percent of State Park Revenues, by Source



Source: National Association of State Park Directors

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Forest and watershed restoration efforts did not progress as planned in the second and third quarters, primarily due to heavy mountain snowstorms. State parks continued to see stronger visitation than in prior years and per visitor revenue increased to a level not seen since FY14. Inspections of oil and gas facilities remained high in the third quarter and the agency will meet the annual target for plugging abandoned oil and gas wells.

Healthy Forests

Only 28 percent of the target for forest and watershed treatment was met through the third quarter as winter weather continued to impair access to project areas. The agency projects to increase efforts in the fourth quarter due to more favorable weather and road conditions, estimating 16 thousand acres will be treated in FY16.

The National Interagency Fire Center projects above average fire potential in Southwestern New Mexico in June, but normal potential for the rest of the state through August. Foresters have recently taken advantage of some periods of cooler and wetter weather to conduct prescribed burns. Other natural fires, like the over 9,000 acre McKenna Fire in the Gila Wilderness, have been allowed to burn to reduce hazardous fuels, remove debris, and restore natural fire to ecosystems. However, fires allowed to burn for management purposes are only included in the agency's performance data if agency staff is active in managing the fire.

Healthy Forests			FY15 Actual	FY16 Target	Q1	Q2	Q3	Rating
Budget: $12,863.4		FTE: 80.0						
1	Nonfederal wildland firefighters trained		1,625	1,875	34	256	1,007	G
2	Acres treated in New Mexico's forest and watersheds		15,142	19,000	1,171	3,221	1,134	R
3	At-risk communities or local fire departments provided funding for wildland firefighting equipment or training		112	110	5	28	45	G
Program Rating			Y					Y

State Parks

Visitation to state parks was strong again in the third quarter relative to the same period last year and is on pace to well exceed the annual target, given historically high fourth quarter visitation. The agency reported a significant increase in per visitor revenue in the third quarter, but annual performance lags behind the target and state parks lost $1.35 per visitor in FY15. New Mexico's state parks lost $5.8 million in FY15 when comparing operating costs to visitor revenues. State Parks is looking to new sources for raising revenue to fund park operations, such as partnering with other governmental, private, or non-profit entities.

State Parks			FY15 Actual	FY16 Target	Q1	Q2	Q3	Rating
Budget: $28,354.6		FTE: 246.0						
4	Visitors to state parks, in millions		4.7	3.9	2.0	0.6	0.7	G
5	Self-generated revenue per visitor		$0.87	$0.96	$0.73	$0.75	$0.98	Y
6	Interpretive programs available to park visitors		1,780	2,500	453	192	275	R
Program Rating			Y					Y

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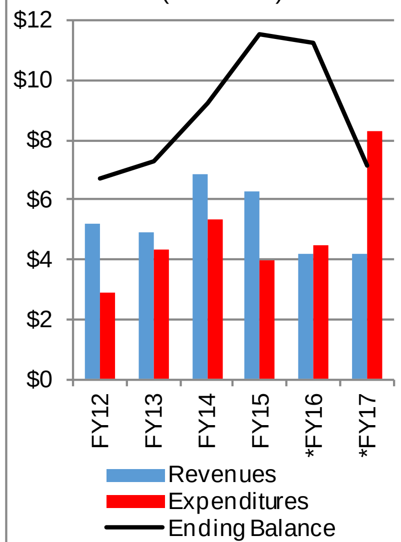
Mine Reclamation

During the third quarter, three major Freeport McMoRan, Inc. (FMI) operations – the Chino, Tyrone, and Continental mines – were added to the list of operations without the required financial assurance. While a decline in FMI's credit rating impacted the amount of third-party guarantees for the mines, the company proposes to offset the reduction by increasing its cash deposits and collateral available for reclamation and decrease the third party guarantees by $108 million. MMD is reviewing this proposal. The Chino and Tyrone mines are, by far, the two largest non-coal mines in the state in terms of disturbed acreage. Additionally, Peabody Energy recently failed to close a $358 million deal to sell its New Mexico assets. The company filed for Chapter 11 bankruptcy in April and secured $200 million from lenders for reclamation obligations nationwide. There are no immediate plans to sell.

Mine Reclamation		FY15 Actual	FY16 Target	Q1	Q2	Q3	Rating
Budget: $8,231.7	FTE: 34.0						
5	Permitted mines with approved reclamation plans and adequate financial assurance posted to cover the cost of reclamation	99%	100%	98%	99%	96%	Y
Program Rating		G					Y

Oil Reclamation Fund Revenues, Expenditures, and Balance
(in millions)



* FY16 and FY17 reflect LFC projections

Source: EMNRD and LFC Files

Oil and Gas Conservation

With more than 36 thousand oil and gas facility inspections through the first three quarters, the agency has nearly reached the annual target. LFC and agency staff agreed to a new FY17 performance measure – the percentage of inspections showing compliance with laws and regulations – to provide information on what these efforts find.

The agency is on track to meet the annual target for plugging abandoned oil and gas wells. However, agency and LFC projections show a rapidly decreasing oil reclamation fund balance through FY17 due to a long list of wells authorized for plugging – which is expected to grow in the near future due to oil producer bankruptcies – and increased use of the fund to support agency operations. At the same time the fund is being tapped at a higher rate, revenues are projected to decline as the oil and gas industry weathers the downturn. As of May 2016, the cash balance of the oil reclamation fund is $9.3 million, but agency staff reports an unobligated balance of only $395 thousand and projects a reduction in fund revenues. The average cost of plugging a well is $30 thousand to $40 thousand.

Oil and Gas Conservation		FY15 Actual	FY16 Target	Q1	Q2	Q3	Rating
Budget: $11,519.3	FTE:70.0						
6	Inspections of oil and gas wells and associated facilities	47,539	39,000	12,431	10,245	13,379	G
7	Application to drill permits approved within 10 business days of receipt.	89.75%	60%	78%	89%	89%	G
9	Abandoned oil and gas wells properly plugged using Reclamation Fund monies	31	30	4	7	15	G
10	Violations issued	New	n/a	315	183	173	G
Program Rating		G					G

KEY ISSUES

Increased use of the oil reclamation fund beginning in FY16, at the agency's request, and a projected reduction in fund revenues raise concerns about funding for the agency's responsibility to plug abandoned oil and gas wells in coming years. The level of financial assurance required by state law is generally considered to be inadequate to cover the cost of plugging wells abandoned by a producer, leaving the state to make up the difference in many cases. With expectations that the oil downturn will lead to an increase in abandoned wells, the agency should plan for how it will accomplish its duty to plug abandoned wells with a declining fund balance.

IMPROVEMENT PLANS

Submitted by agency?	No
Timeline assigned?	No
Responsibility assigned?	No