



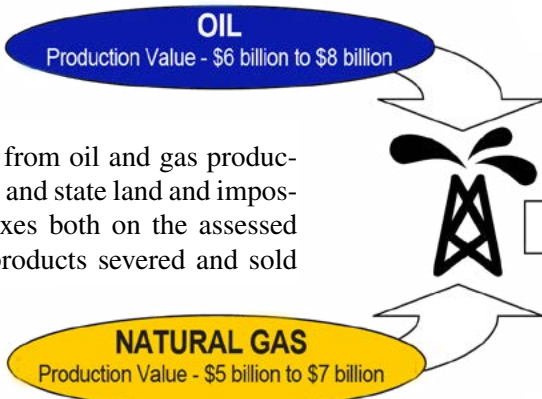
Oil and Natural Gas Revenue

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. The state generates revenue from the extractive industries in a variety of ways, primarily through severance, gross receipts, corporate income and personal income taxes and royalties.

Direct and Indirect Income

New Mexico typically receives about \$2 billion in direct revenue from oil and gas production through severance and 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 production 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.



Most oil and gas revenue is deposited into the general fund. Most years, oil and gas revenue make up 15 percent to 25 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 \$9.5 million for the general fund, while a 10 cent increase in the price per thousand cubic feet of natural gas translates into \$6.5 million in additional revenue.

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 invests 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, receiving about 85 percent of annual distributions.

Direct General Fund Revenue - >\$1 billion
Revenue for Capital Outlay - \$400 million to \$500 million
Property and gross receipts tax revenue to state and local governments

The severance tax permanent fund receives revenue from taxes on the extraction of oil and gas, primarily, but also on the extraction of coal, copper, and other minerals. The revenue is used to retire debt for government projects. The State Investment

Council also invests the severance tax permanent fund. At over \$20 billion, the two funds make up one of the world’s largest educational endowments.

Natural Gas Liquids and Heavy Crude

Raw natural gas typically is mostly methane, the lightest hydrocarbon molecule, but it also contains propane, butane, and other “heavier” hydrocarbons. When processed, these are called natural gas liquids, or NGLs. New Mexico producers sell both “dry” natural gas and NGLs, and while the volume of NGLs produced is much lower, 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.

Because New Mexico produces “heavy” crude oil, which has a higher sulphur content, it requires additional processing and attracts a lower price. The price tends to run slightly behind the price for West Texas Intermediate, the national indicator.

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