Oil and Gas Industry Contribution to State and Local Revenues

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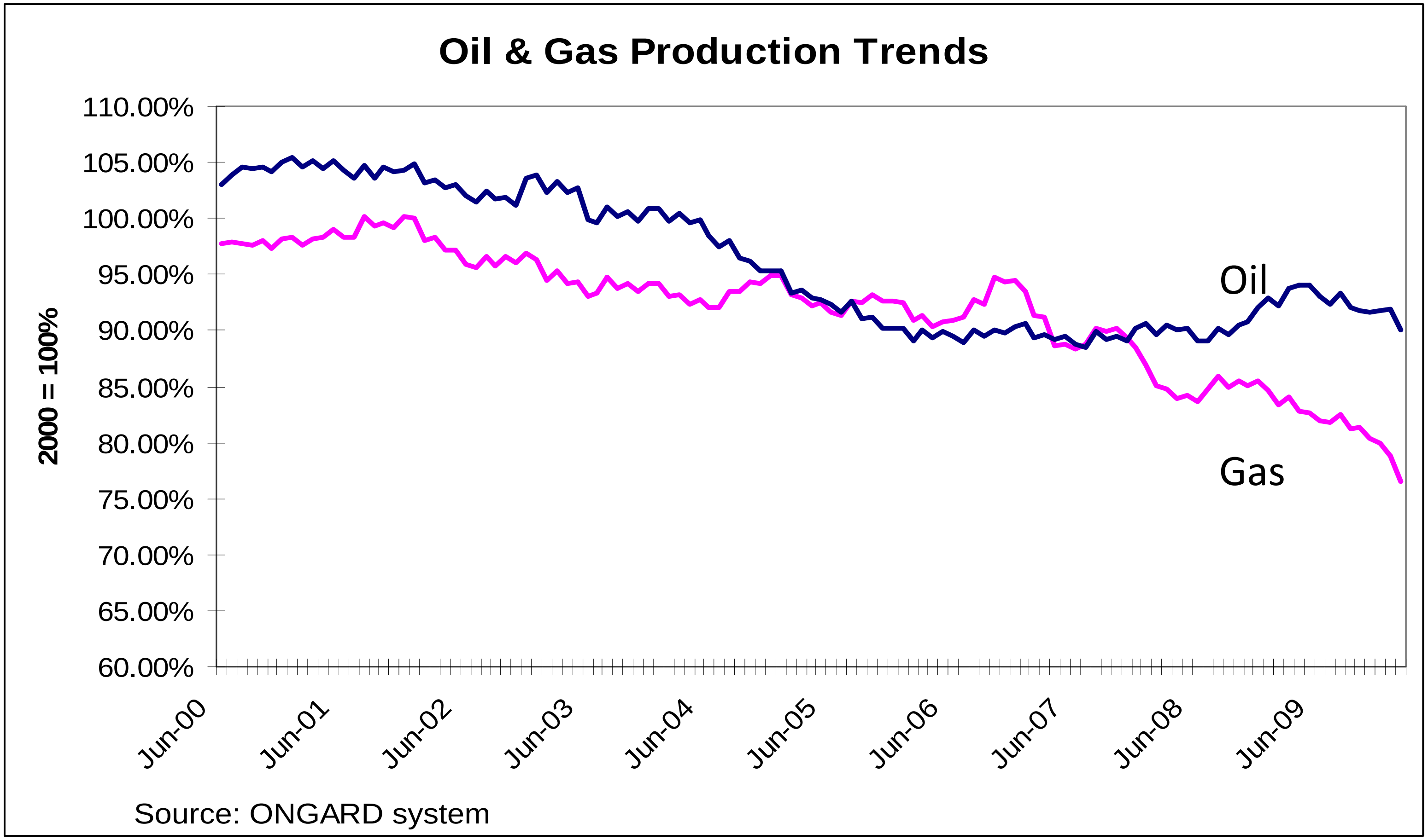
Overview

- Oil and natural gas production have been gradually declining in New Mexico over the last 10 years
- About 80% of oil and gas production is on public lands
- Total state and local revenue attributable to the industry was $2.2 billion in FY10:
  - Severance taxes, rents & royalties contributed $800 million to the General Fund in FY10, 17% of total recurring revenue
  - Severance taxes and royalties to other funds added another $760 million
  - Other direct & indirect revenue due to the oil & gas industry added over $600 million of state & local revenue
- NM's tax rates on O&G production are in the middle of the range among producing states
- High reliance on O&G revenues creates two challenges for the state: revenue volatility and long-run sustainability.



- *Gas production decline accelerated in the last 2 years*
- *Dry gas equivalent volume now less than 1.3 Tcf*
- *General Fund revenue falls $5 million with each 1% decrease of gas*
- *Oil production appears more stable, about 61 mmbbl/year*

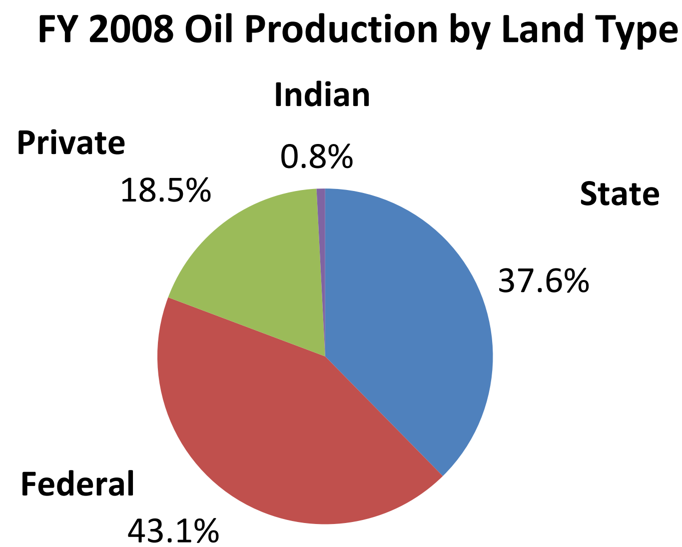
About 80% of oil and gas is produced on public lands– More gas is on federal lands, more oil on State lands

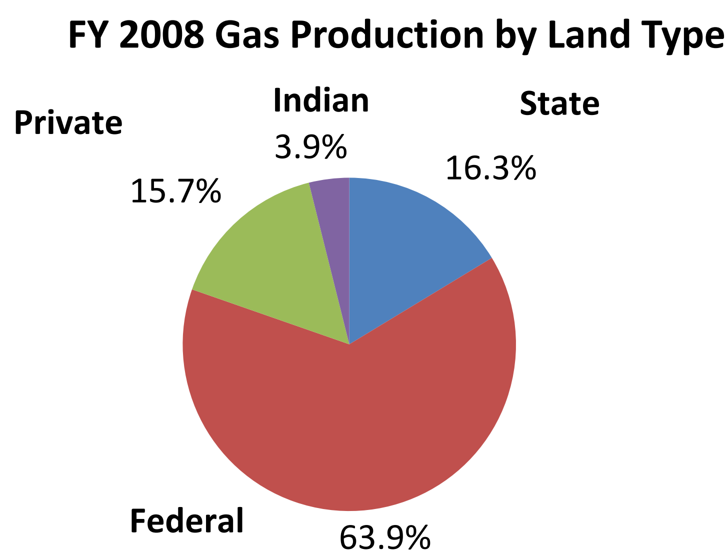
Royalties from public lands are an important source of revenue to the General Fund (federal lands) and to the Permanent Funds (State lands)

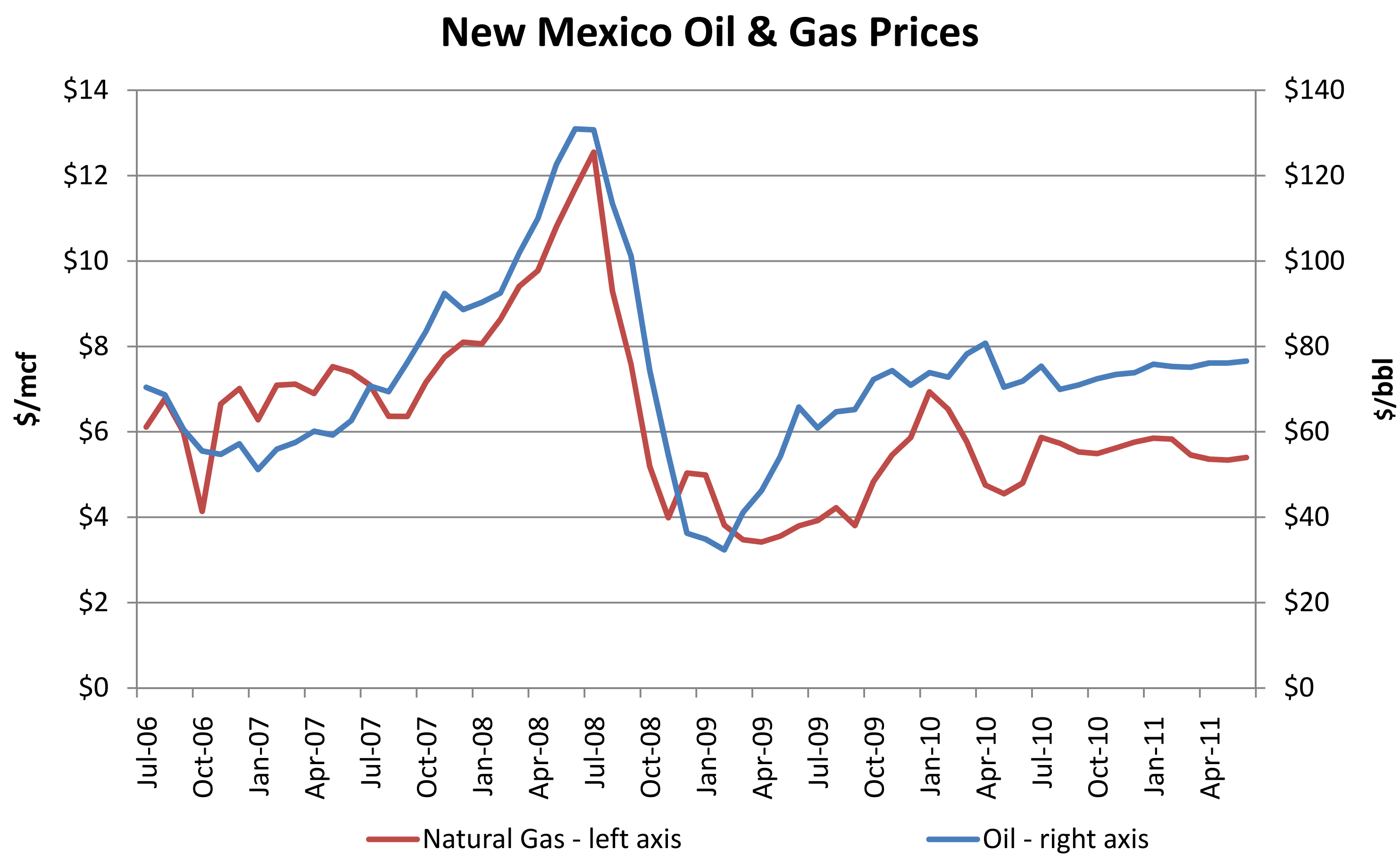
Total royalties FY 2010:

- Federal * .... $715 billion
- State .... $316 million
- Indian .... $32 million
- Private# .... $220 million

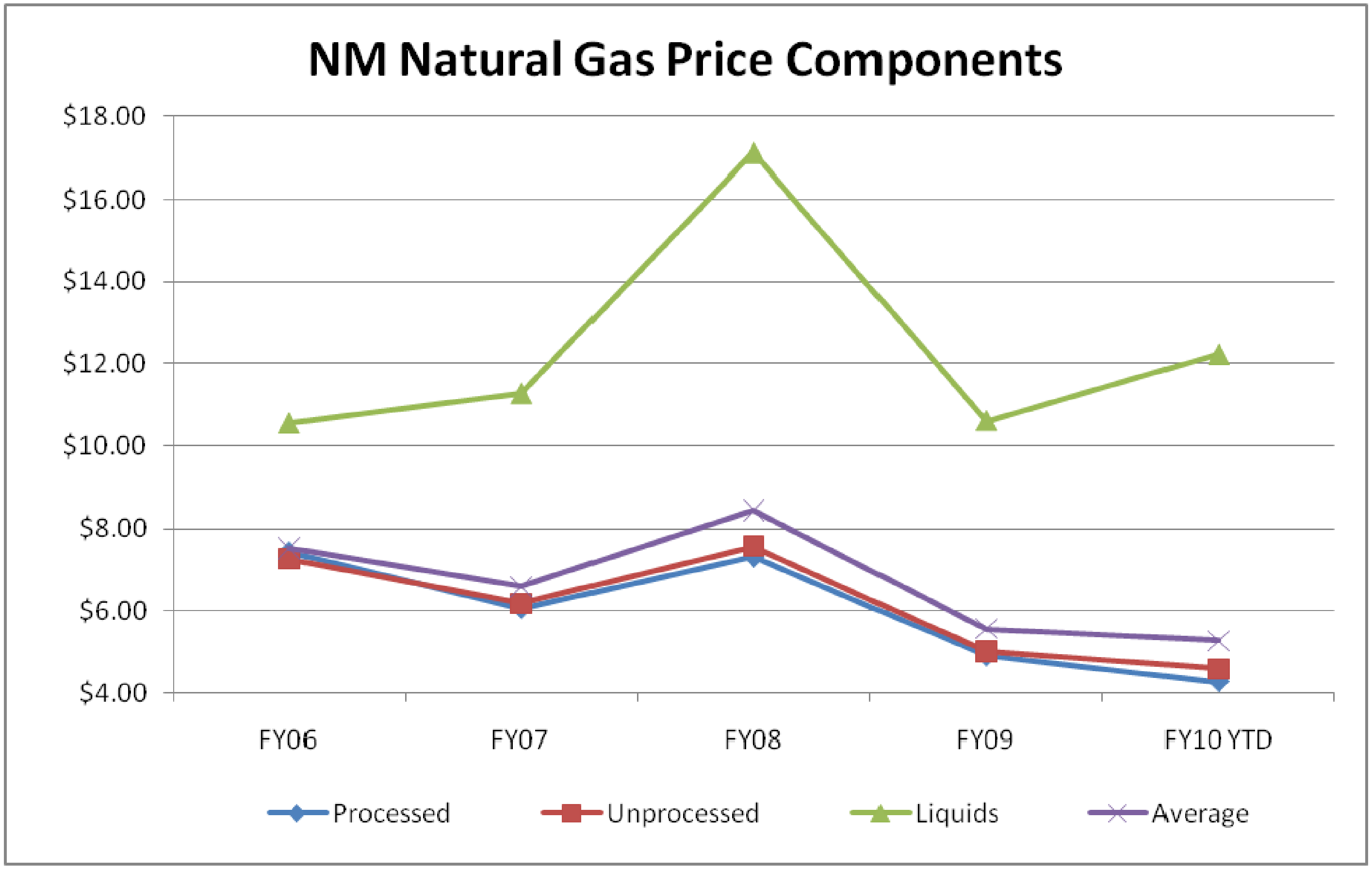
*48% distributed to State
Estimate using 1/8 rate



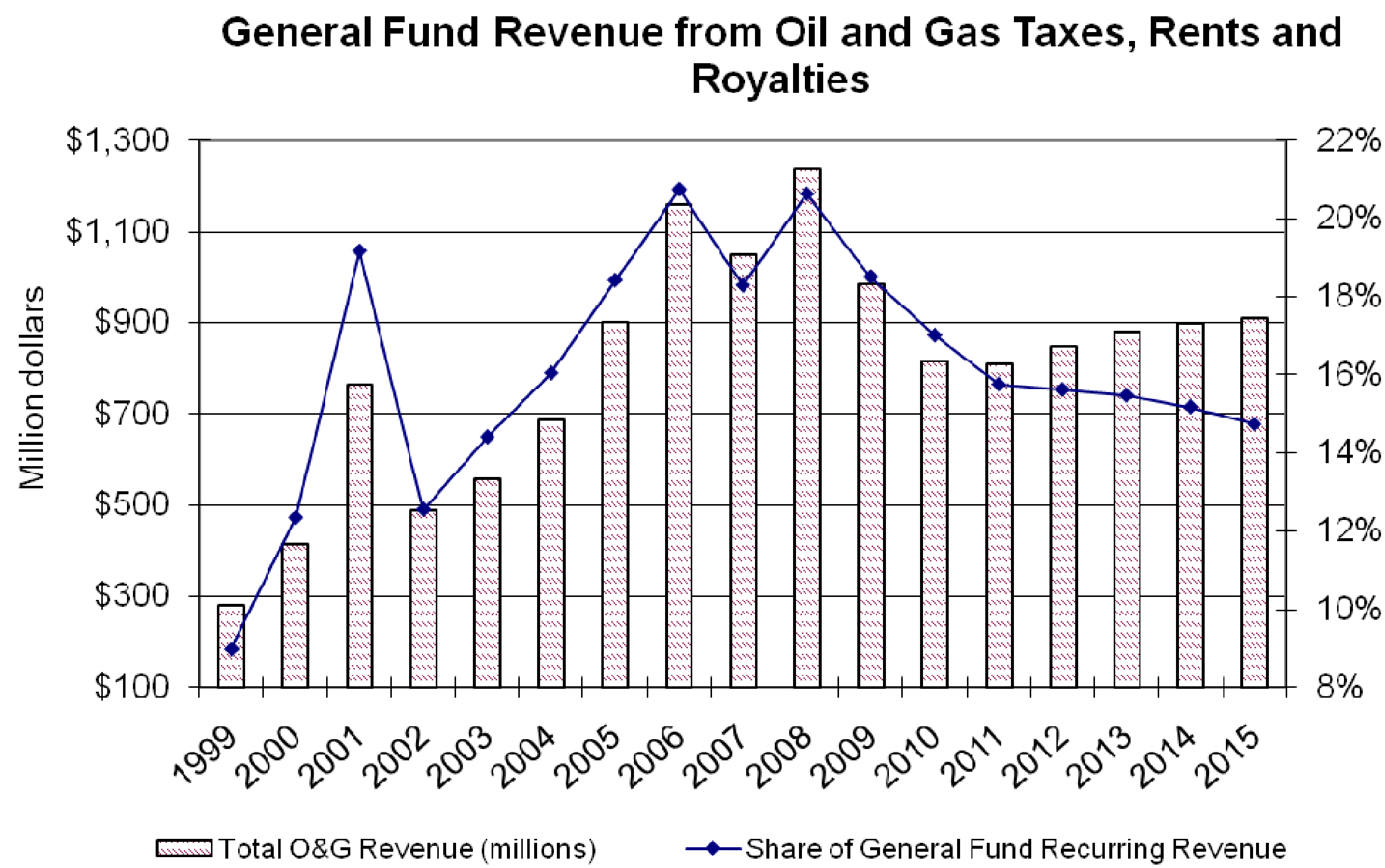




- *State revenue forecasters use a consensus approach*
- *N. Gas exceeded forecast in FY10, about equal to forecast in FY11*
- *NG Liquids are adding $0.50 to $0.75/Mcf relative to spot, dry gas prices*



- *NM producers have been processing more gas, and receiving higher value per unit*
- *Processing losses have reduced volume measured in dry gas equivalent*



- *Severance taxes, rents & royalties contributed over $1 billion per year – 20% of General Fund -- in 2006 – 2008*
- *Severance taxes, rents and royalties fell to $800 million – 17% in FY10*
- *Declining share is forecast*

Estimated FY 2010 Oil & Gas Revenue by Fund

	Crude Oil	Natural Gas	Total
Average Price	$71.35	$5.12	
Annual Production Volume*	61.8	1,285.0	
Deductions as percent of gross value**	10.3%	23.0%	
Taxable Value (million dollars)	$3,957	$5,066	
State General Fund:		*(Million dollars)*	
O&G School Tax	124.7	202.6	327.3
O&G Conservation Tax	6.7	8.6	15.3
Natural Gas Processors Tax	-	40.0	40.0
Subtotal: General Fund Taxes	**131.4**	**251.3**	**382.6**
Federal mineral leasing royalties	119.4	225.8	345.2
State land office bonuses and rents	47.6	19.7	67.4
Subtotal: rents and royalties	**167.0**	**245.5**	**412.5**
Total General Fund Revenue	**298.4**	**496.8**	**795.2**
Other State Funds:			
O&G Severance Tax	148.4	190.0	338.4
State Land Royalties	190.5	126.3	316.8
Subtotal: Other State Funds	**338.9**	**316.3**	**655.2**
Total State Revenue	**637.3**	**813.1**	**1,450.4**
Local Government Revenues:			
Ad Valorem Production Tax	41.6	53.2	94.7
Production Equipment tax	7.5	9.6	17.1
Total: Local Government revenue	**49.0**	**62.8**	**111.8**
Grand Total State & Local Revenues	**686.3**	**875.8**	**1,562.2**

*Million barrels of oil and billion cubic feet of dry-gas equivalent.
**Processing, transportation and royalty payments allowed as tax deductions.

Total State & Local direct production revenue = $1.56 billion

Estimated FY 2010 Direct & Indirect Revenue Impacts of O&G Production
(Million Dollars)

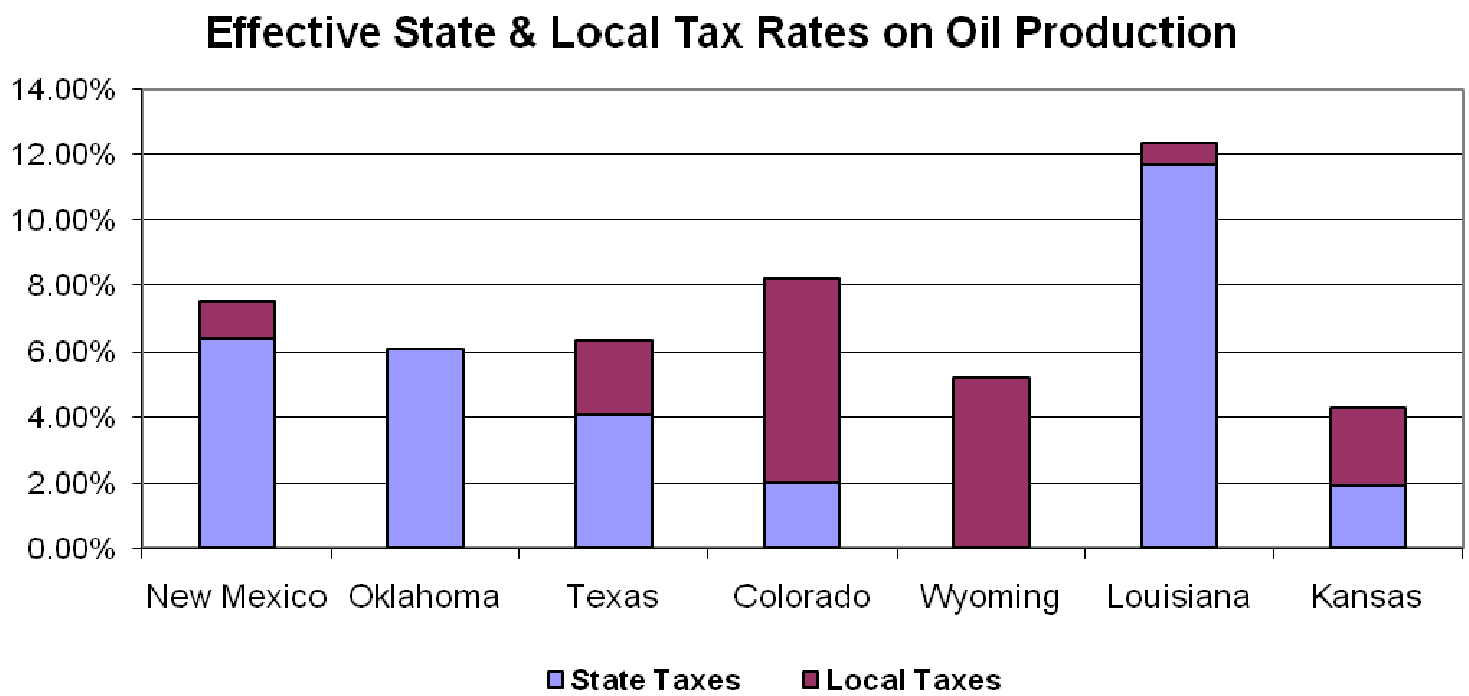
	Direct	Indirect	Total
General Fund:			
Gross Receipts Tax	$41	$114	$155
Personal Income Tax	$78	$75	$153
Corporate Income Tax	$110	$16	$126
Other	$0	$47	$47
Subtotal	**$228**	**$251**	**$480**
Local Governments	$36	$118	$154
Total	**$265**	**$369**	**$634**

- *Direct impacts are GRT on purchased goods and services, payroll taxes, income taxes, etc.*
- *Indirect impacts are economic activity from re-spending of direct impacts*
- *Estimates assume a "multiplier" of 2.0 on industry activity*
- *Total = additional 10% of General Fund*

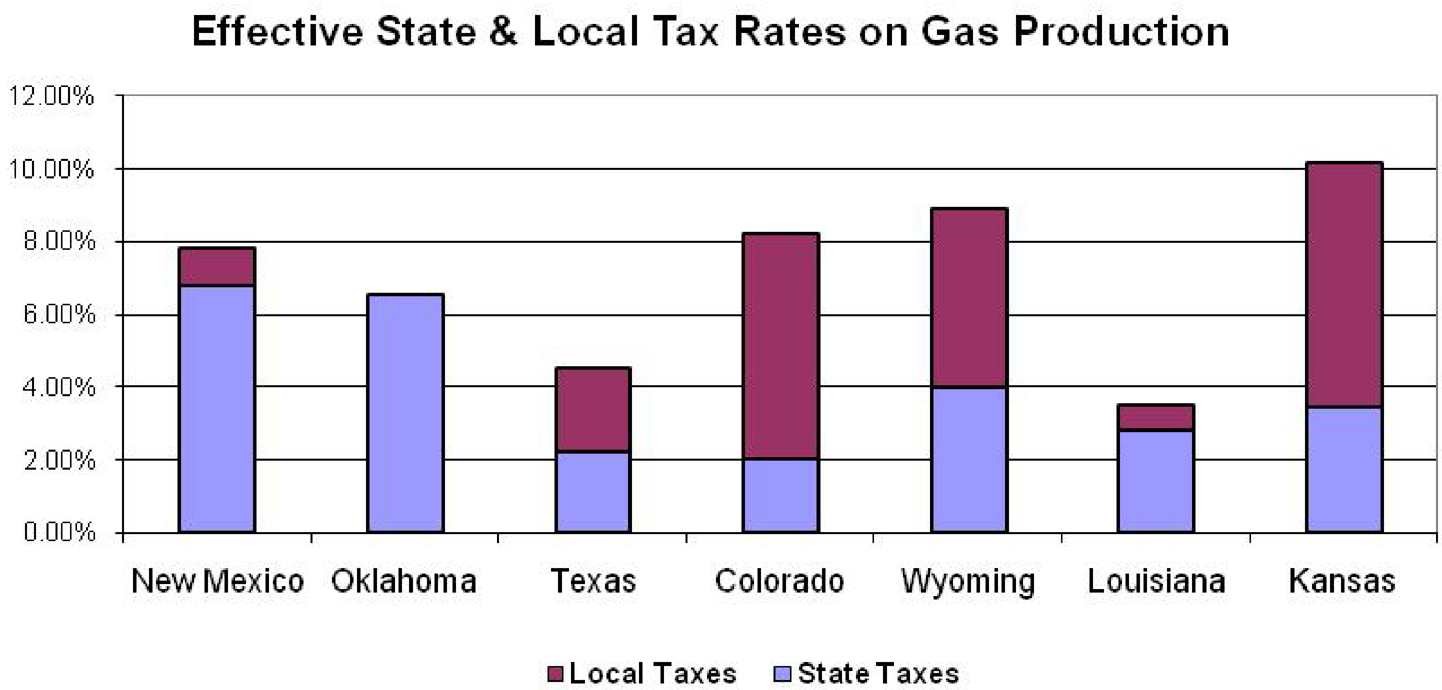
Summary:
FY 2010 State & Local Revenue from Oil and Gas Operations

• State General Fund:	
– Production Taxes	$383 million
– Royalties, bonuses	$413 million
– Taxes on direct activities	$228 million
– Taxes on indirect activities	$251 million
– Total	**$1,275 million**
– Percent of General Fund	27%
• Other State Funds:	
– Severance Tax Bonding Fund	$338 million
– Land Grant Permanent Fund	$317 million
• Local Governments	$266 million
• **Grand Total**	**$2,196 million**

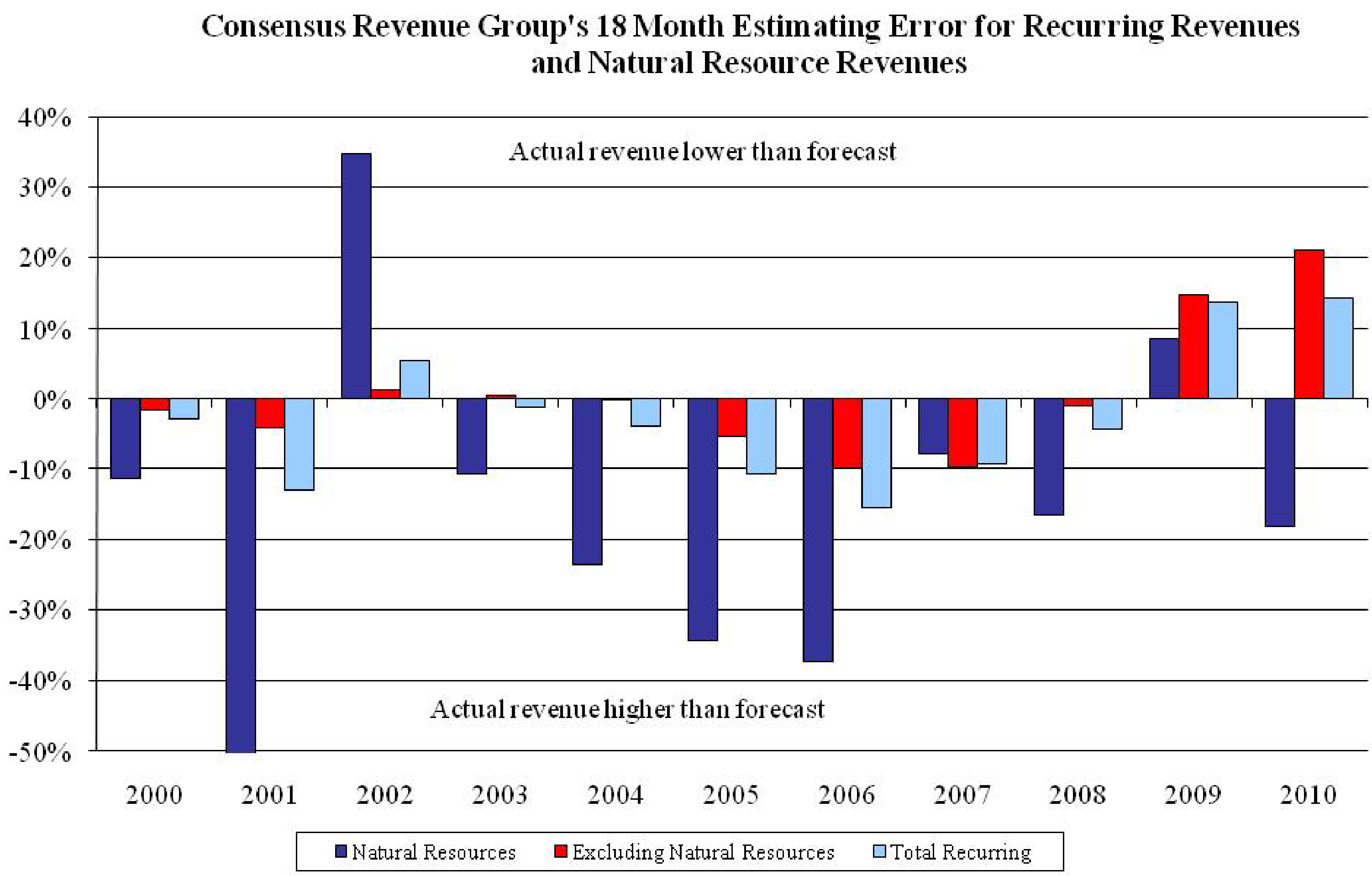
- *Does not include refining, transportation and retail distribution operations.*
- *Does not include permanent fund distributions.*
- *FY08 total = $3.3 billion, 33% of General Fund*



- *NM combined effective tax rate on oil is 7.5%, above TX, OK and WY, below LA and CO*
- *Effective rate = total tax revenue divided by total production value*



- *NM combined effective rate on Gas is 7.8%, above TX, OK and LA, below CO, WY and KS*
- *Effective rate = total tax revenue divided by total production value*



- *In most years, O&G revenue increases forecast error—FY10 exception*
- *O&G revenue volatility means 10% a prudent minimum for reserves*

Conclusions

- The oil and gas producing industry contributed $1.6 billion in taxes, royalties and bonus payments to state and local governments in FY 2010.
- Direct and Indirect industry impacts added another $600+ million
- Total General Fund revenue of almost $1.3 billion comprises 27% of all General Fund revenue.
- Reliance on O&G production creates two major fiscal challenges: Volatility and Sustainability