



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

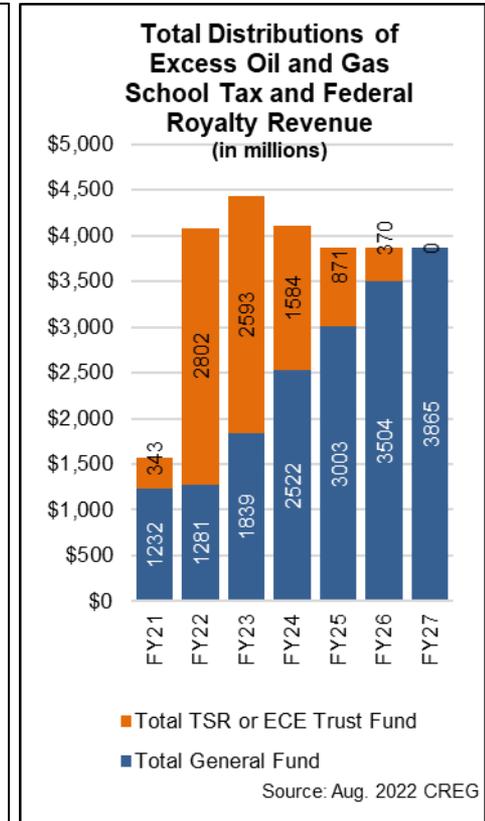
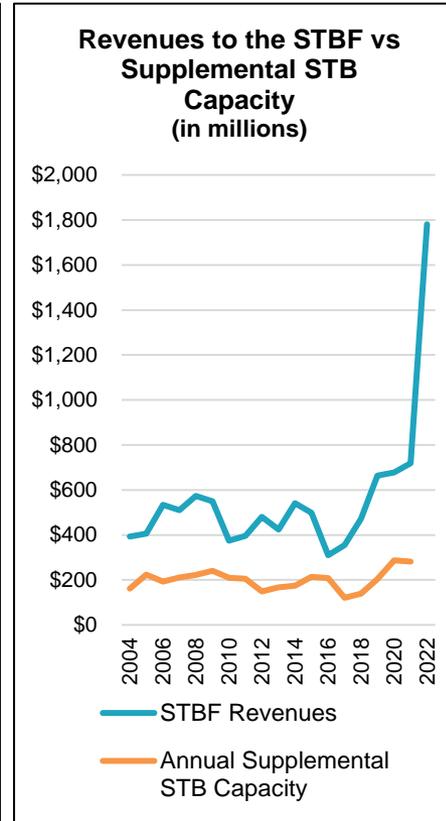
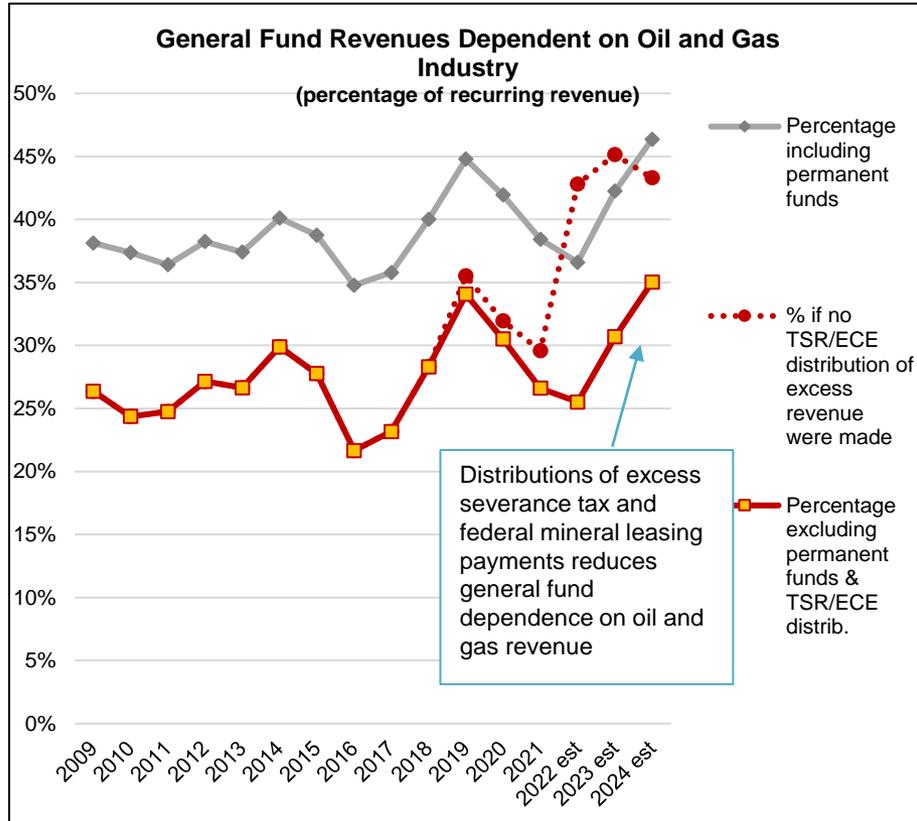
Severance Taxes and the Permanent Fund

Presentation to the Revenue Stabilization & Tax Policy
Committee

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New Mexico's oil and gas industry affects state revenues in many ways.



Severance Taxes on Oil and Gas Production

Taxes on Oil	Net Price of Oil (\$/bbl)		
	Under \$15	\$15 to \$18	Over \$18
Oil and Gas Emergency School Tax ¹	1.58%	2.36%	3.15%
Oil and Gas Severance Tax ²	1.88%	2.81%	3.75%
Subtotal	3.46%	5.17%	6.90%
Oil and Gas Conservation Tax	0.19%	0.19%	0.19%
Production Ad Valorem Tax	1.04%	1.04%	1.04%
Production Equipment Ad Valorem Tax	0.14%	0.14%	0.14%
Total	4.83%	6.54%	8.27%

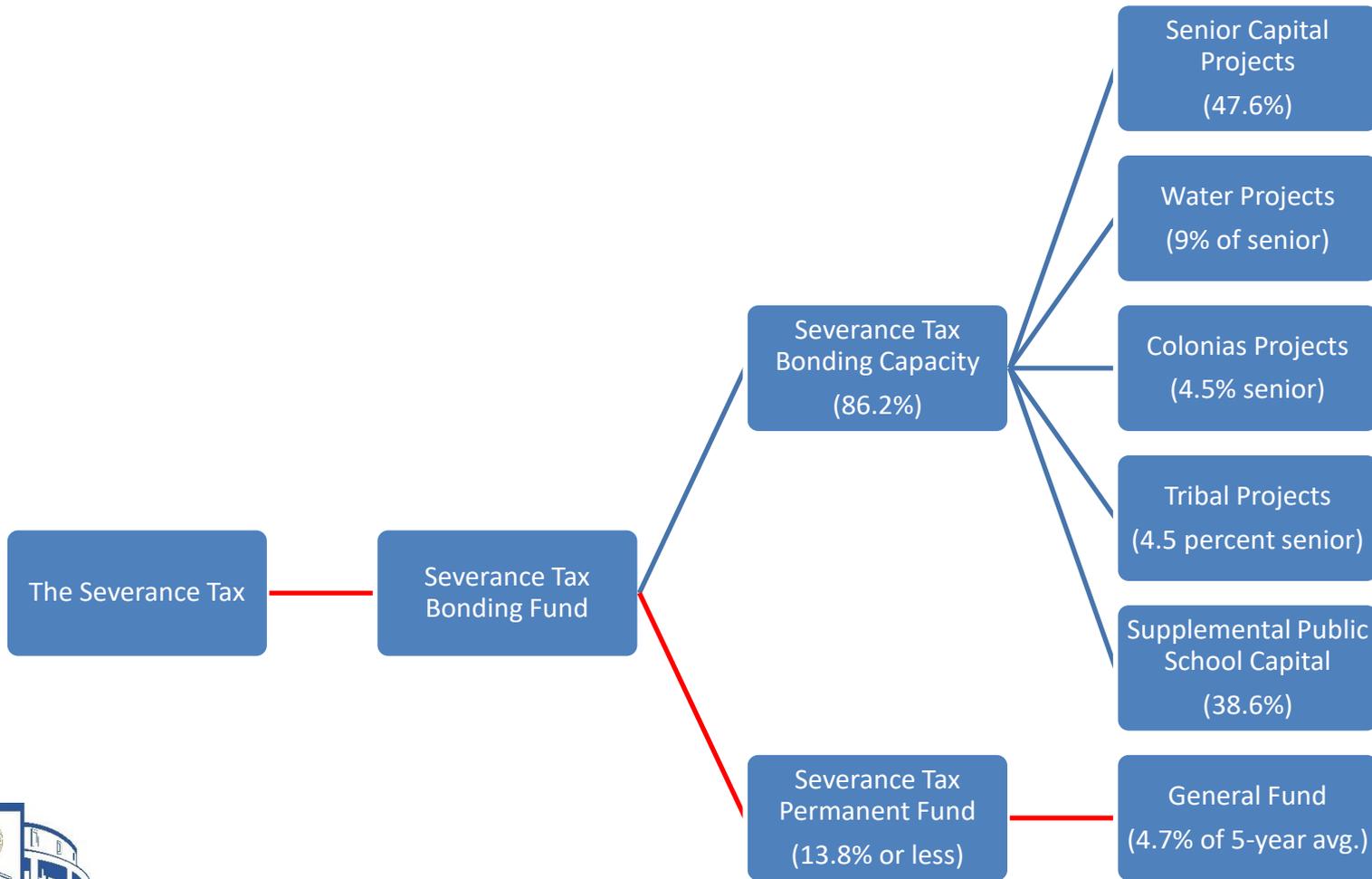
Goes to the general fund with exceptions.
 To STBF
 General fund
 Distributed to local taxing districts

The Severance Tax is distributed to the severance tax bonding fund to be used for capital outlay. Any remaining funds are transferred to the permanent fund.

Taxes on Natural Gas	Net Price of Natural Gas (\$/mcf)		
	Under \$1.15	\$1.15 to \$1.35	Over \$1.35
Oil and Gas Emergency School Tax ¹	2.00%	3.00%	4.00%
Oil and Gas Severance Tax ²	1.88%	2.81%	3.75%
Subtotal	3.88%	5.81%	7.75%
Oil and Gas Conservation Tax	0.19%	0.19%	0.19%
Production Ad Valorem Tax	0.88%	0.88%	0.88%
Production Equipment Ad Valorem Tax	0.15%	0.15%	0.15%
Total	5.10%	7.03%	8.97%



The severance tax is linked to the general fund through the severance tax permanent fund's annual distributions.



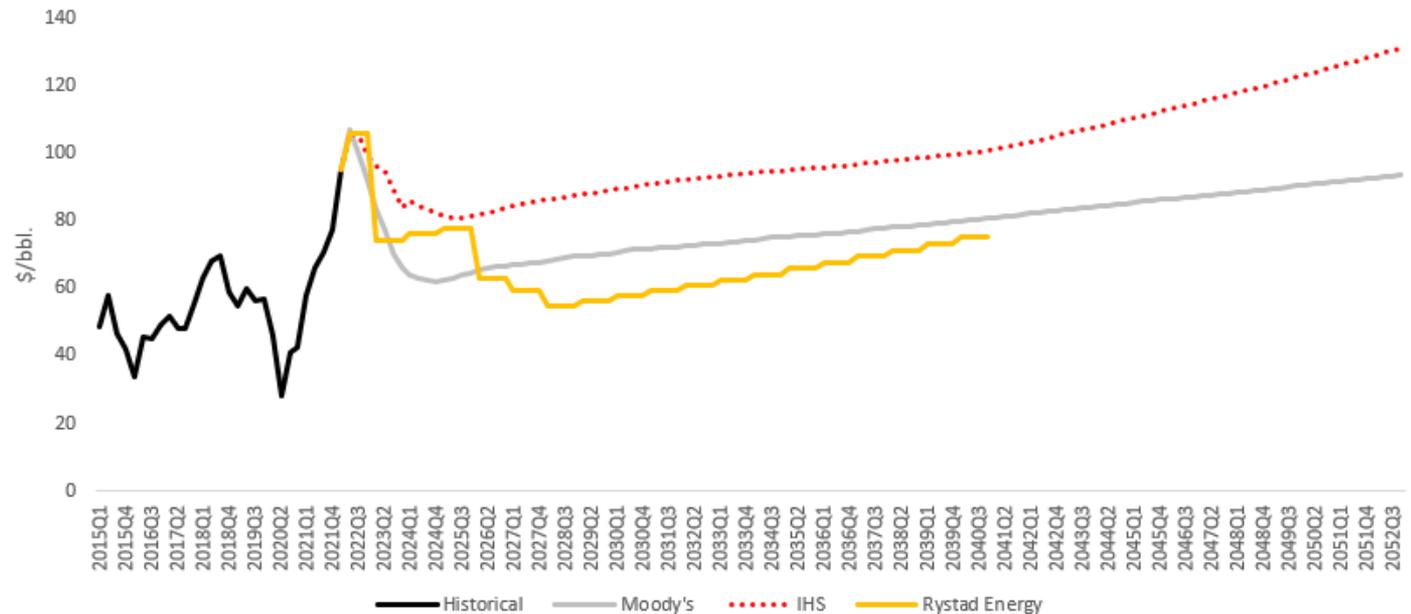
Oil Price Outlook

- Oil prices are inherently volatile and dependent on oil demand, inventory levels, OPEC+ decisions, and other factors.

Moody's WTI Price Forecast (2022Q2 to 2052Q4)

IHS WTI Price Forecast (2022Q2 to 2052Q4)

Rystad Energy WTI Price Forecast (2022Q2 to 2040Q4)



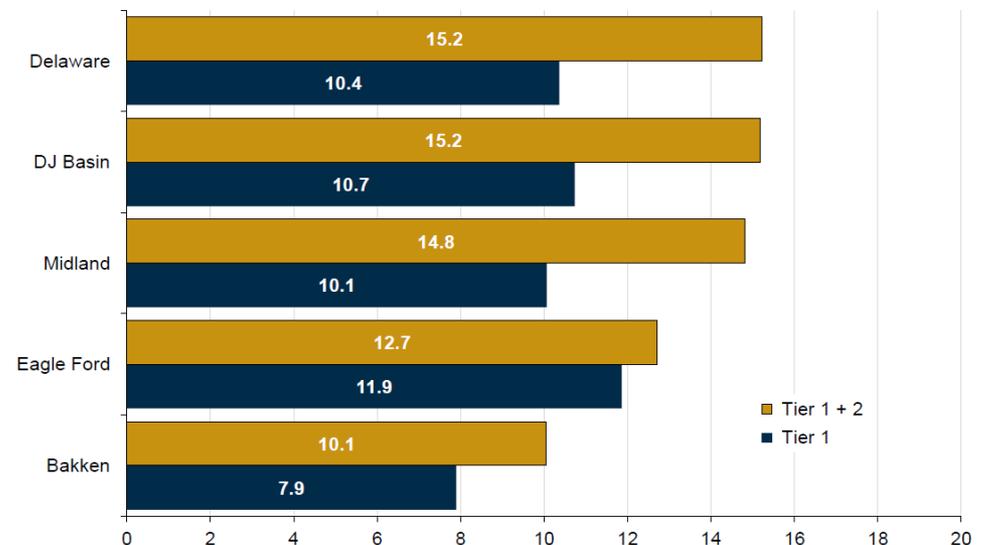
Source: Moody's Analytics, IHS Markit, Rystad Energy



Oil Production Outlook

- Remaining years of drilling at current pace in Tier 1 are estimated at just over 10 years
- Remaining years of drilling at July's pace in Tier 1 and Tier 2 are estimated between 10-15 years

Remaining years of drilling in Tier 1 and Tier 2 acreage at 2022E pace
Number of years

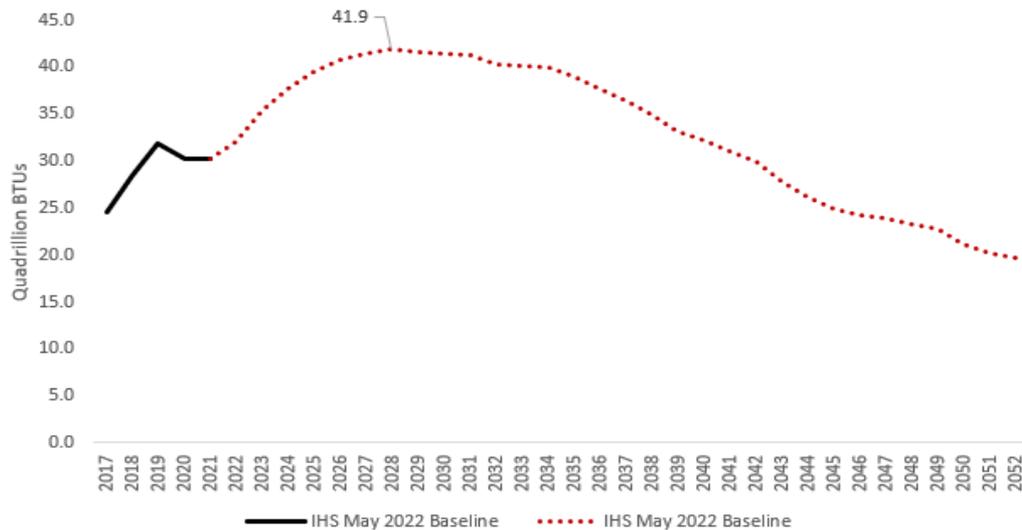


*Excludes Tier 1 potential from currently unleased acreage and future down-spacing programs
Source: Rystad Energy UCube, Rystad Energy ShaleWellCube, Rystad Energy research and analysis



National Production Outlook

US Crude Oil Production IHS Forecast (2022Q2 to 2052Q4)



- IHS and Moody's analytics forecast peak U.S. oil production in 6-10 years

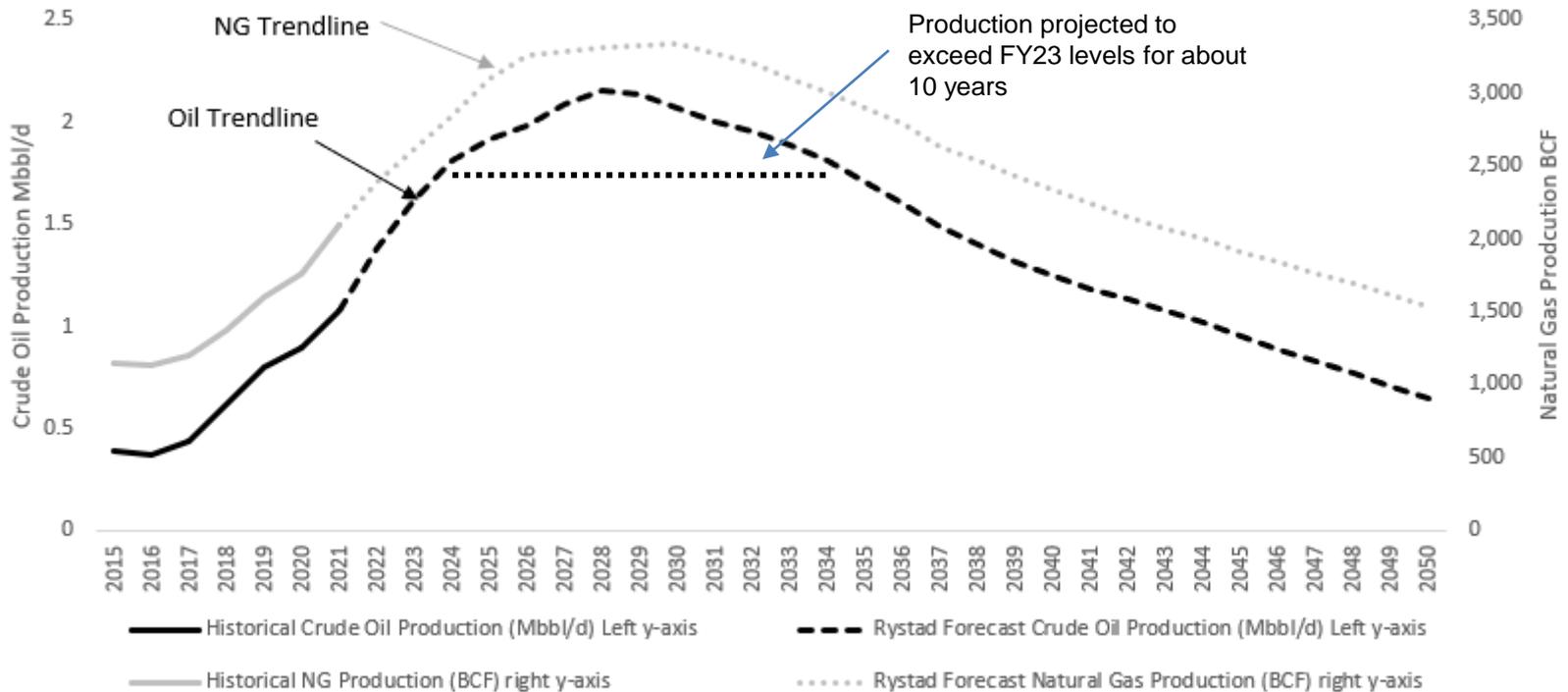
Source: IHS Markit



New Mexico's Oil Production Outlook

NM Crude Oil Production Forecast (CY 2022 to 2050)

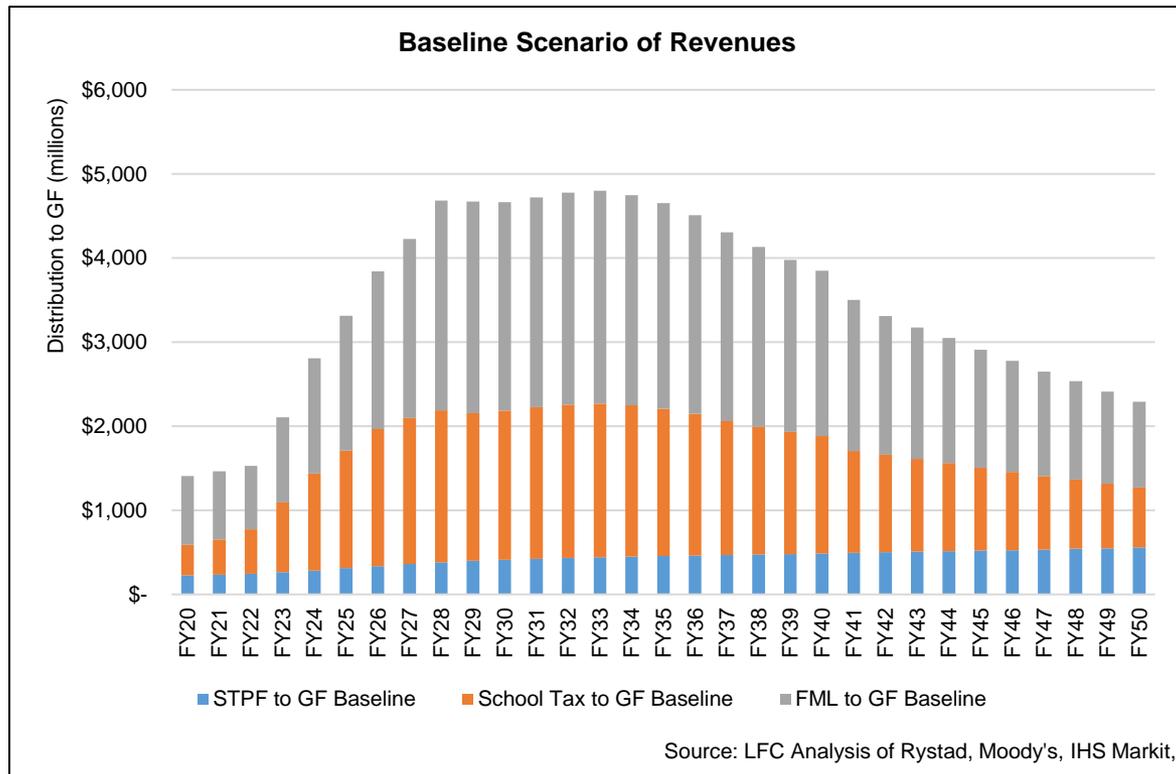
NM Natural Gas Forecast (CY 2022 to 2040)



Source: Rystad Energy



What would these scenarios mean for general fund revenues?

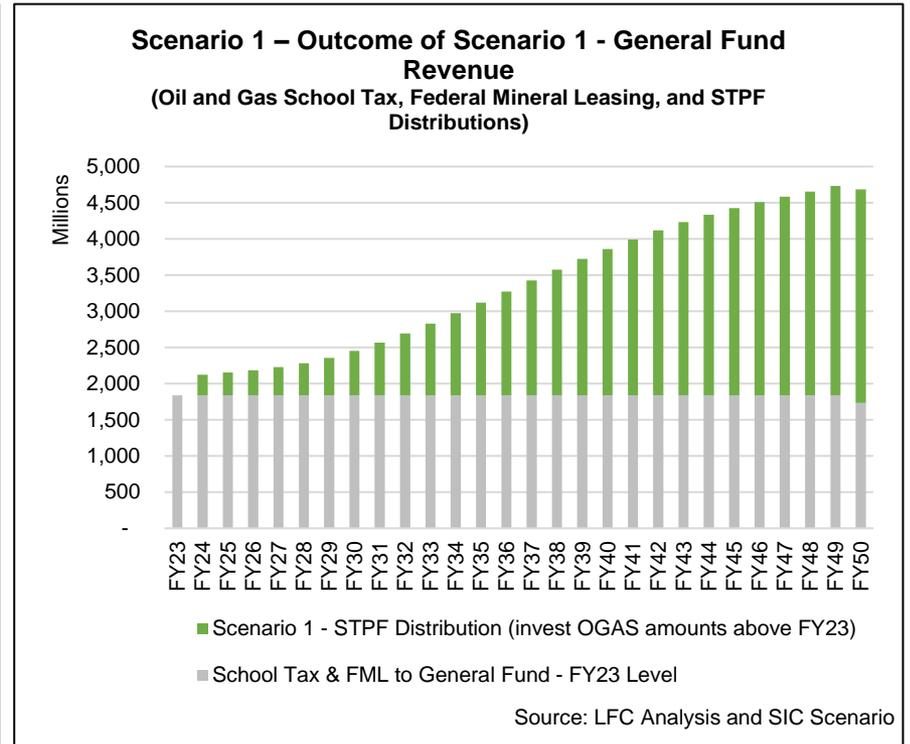
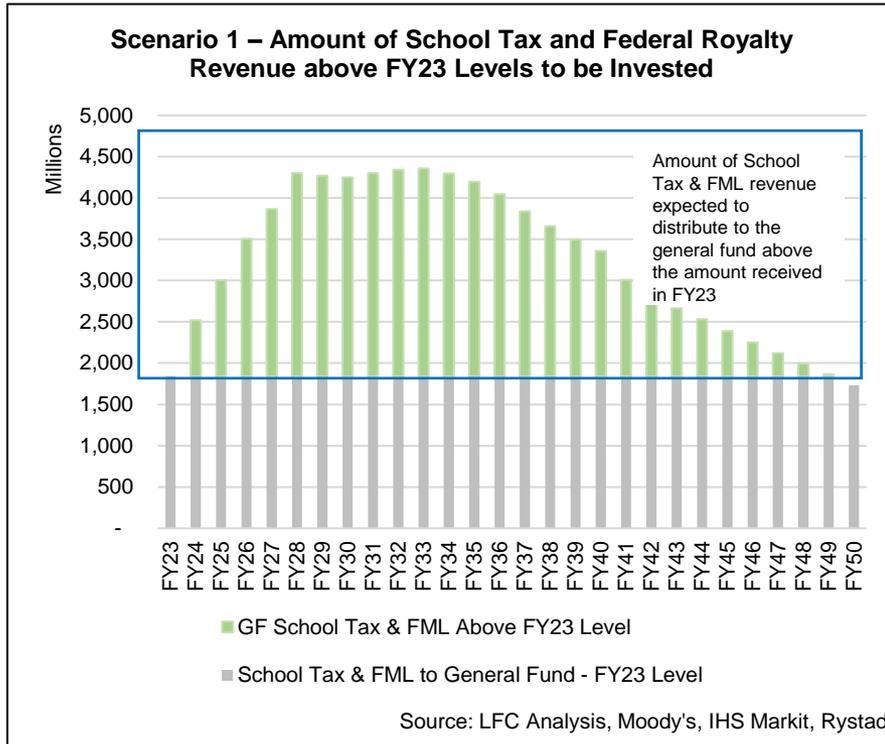


SIC Presentation



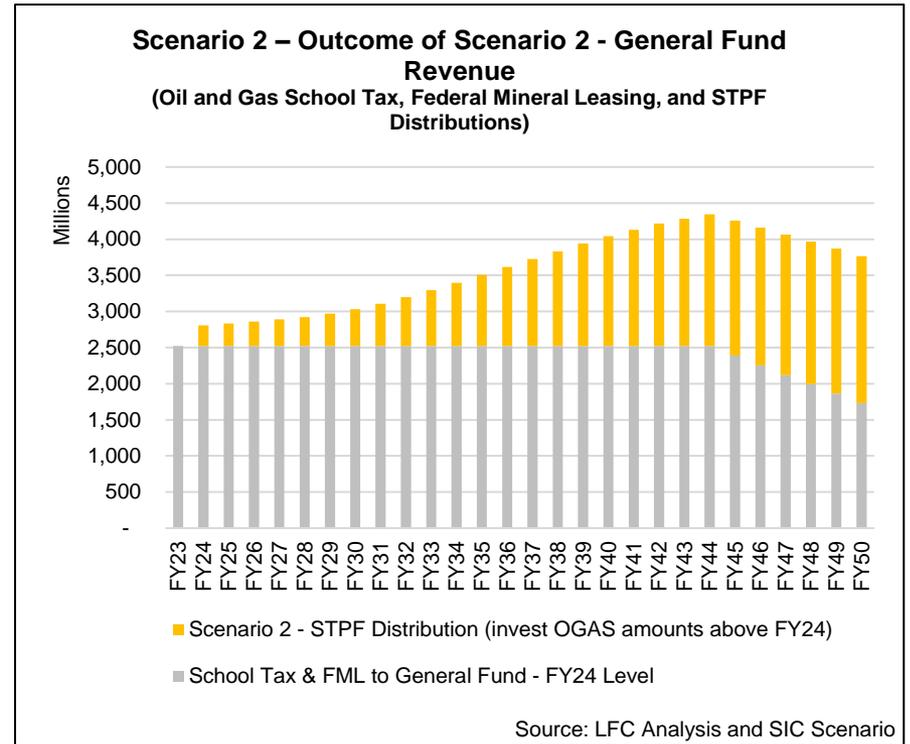
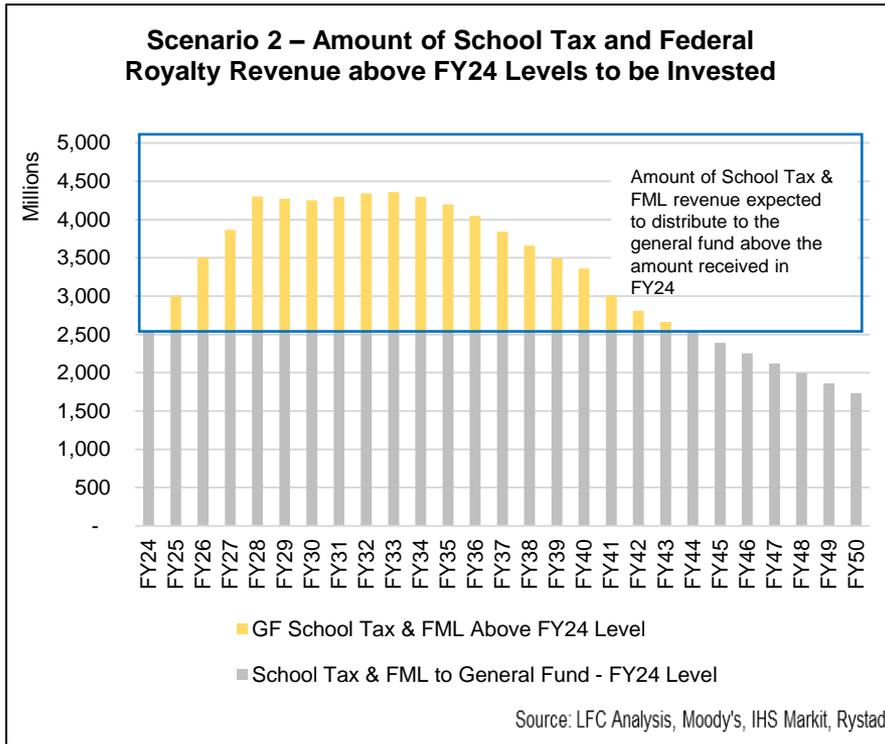
How do the scenarios change the outlook?

Scenario 1: Instead of 5-year average transfers, transfer excess revenues (>FY23) to the STPF.



How do the scenarios change the outlook?

Scenario 2: Instead of 5-year average transfers, transfer excess revenues (>FY24) to the STPF.



QUESTIONS?

