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Presentation to the New Mexico
Revenue Stabilization and Tax
Policy Committee

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Diversifying Revenue on New Mexico's State Trust Lands



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A White Paper by



State Trust Lands in Transition: Understanding the Trust Model



November 2019

State Trust Lands Part 1: The Trust Model

Mark Haggerty

States were granted trust lands by the U.S. Congress to generate revenue to fund public institutions, primarily public schools. [Read more](#)

State Trust Lands Part 2: Permanent Funds

Mark Haggerty

Overspending of state trust permanent funds reduces future school funding and incentivizes sales of trust land and nonrenewable resources. [Read more](#)

State Trust Lands Part 3: New Demands

Mark Haggerty

Changing economies, new land uses, shifting social values, and political pressure create challenges for state trust land managers. [Read more](#)

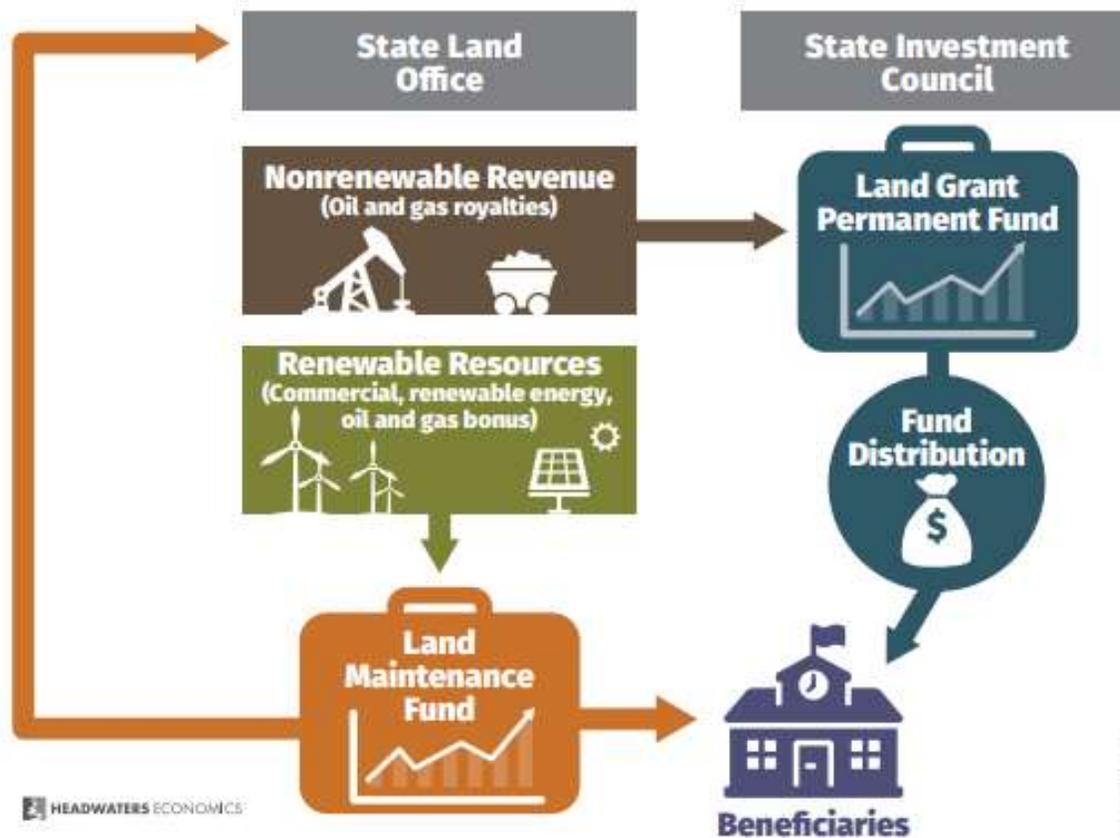
State Trust Lands Part 4: Implications for Federal Land Transfer

Mark Haggerty

Advocates of transferring federal land to states point to the superior ability of state trust lands to generate revenue, but our analysis finds significant economic and fiscal disadvantages. [Read more](#)

<https://headwaterseconomics.org/public-lands/state-trust-lands-model/>

The Whole Trust Model

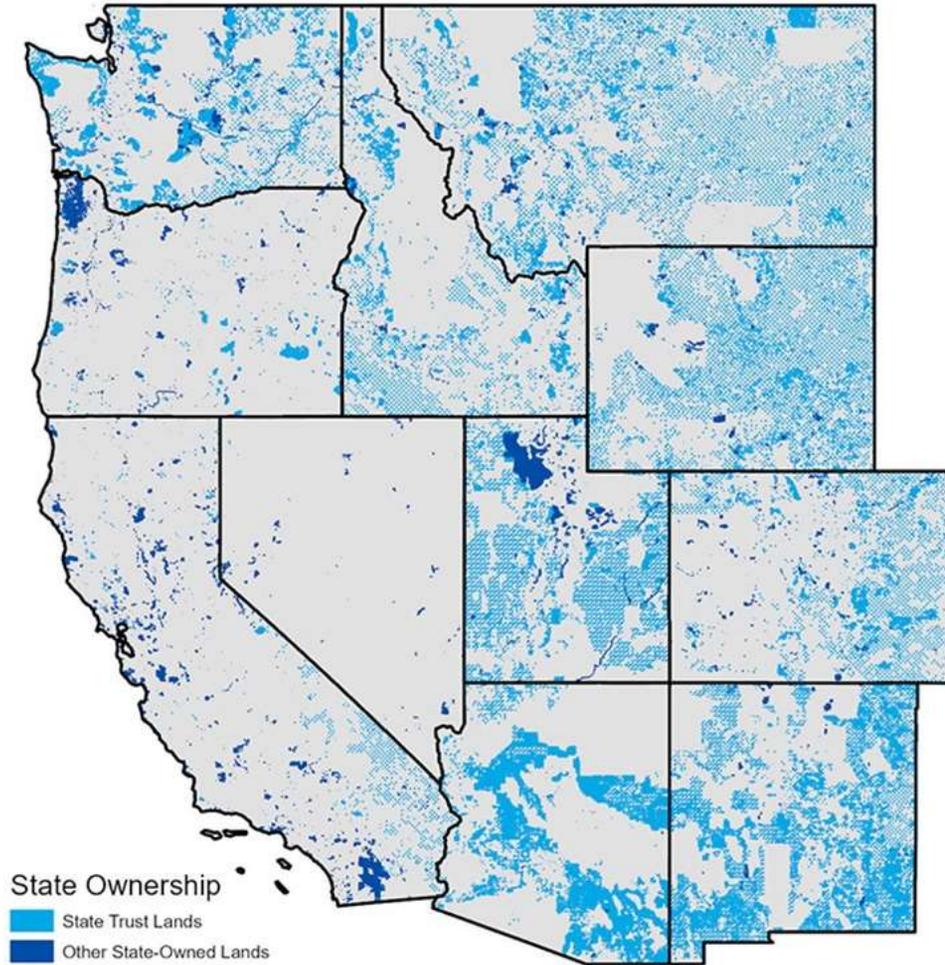


The trust is defined by two key principles:

1. The SLO is obligated to generate revenue from state trust lands for beneficiaries
2. The value of the trust must be maintained in perpetuity

Figure 1. The flow of revenue from New Mexico state trust lands

State Trust Lands in the West



Source: U.S. Geological Survey, Gap Analysis Program, 2018.
Protected Areas Database of the United States (PADUS) version 2.0

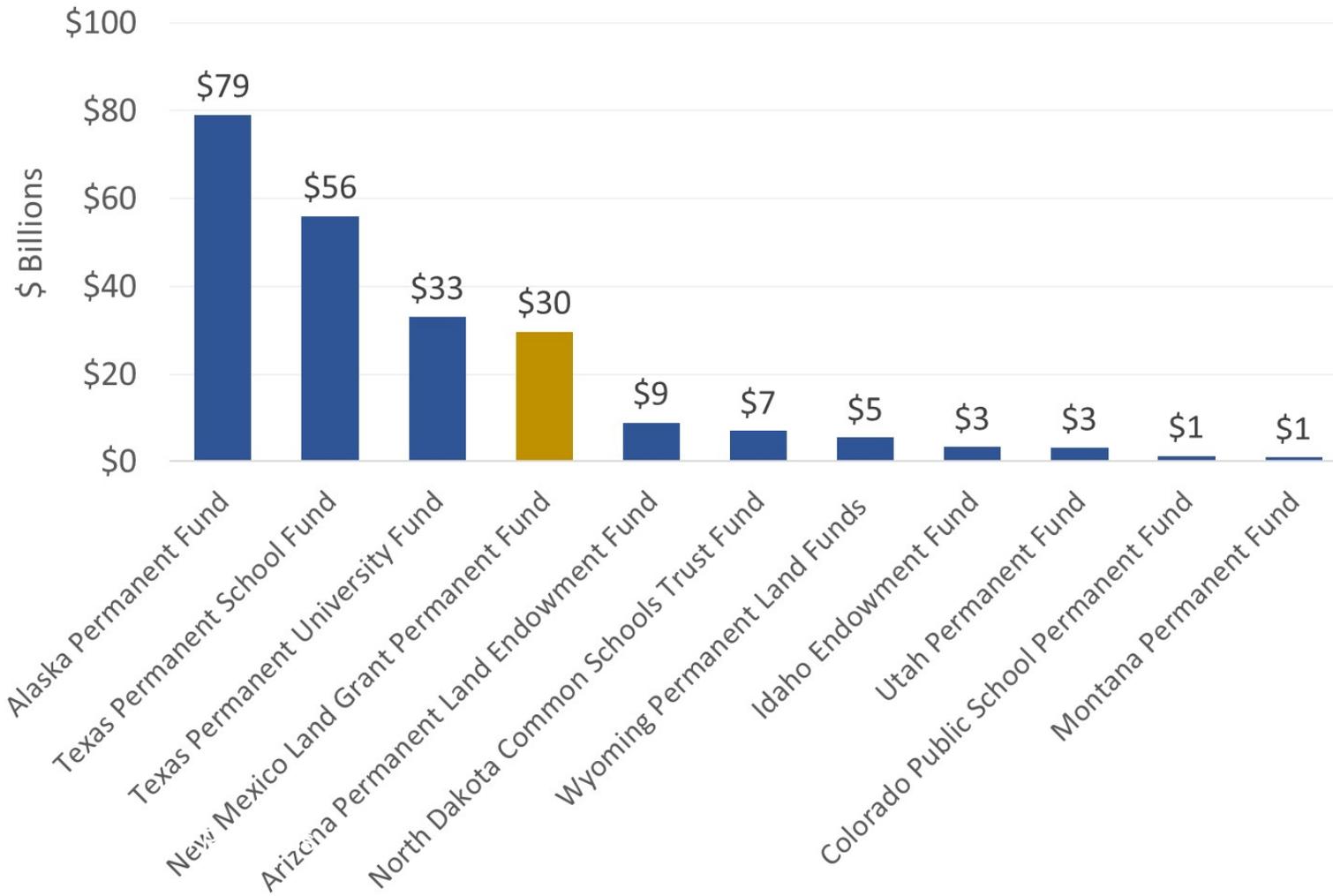
What Makes NM Different?

Geography: four sections
and state selection

Fidelity to the whole trust
mandate

Relatively passive land
management

State Trust Land Permanent Funds



3 Strategies to Leverage State Trust Lands to Diversify Revenue



State Trust Lands in the West



 <p>Portfolio management: Implement a strategy that provides the trust land with authority to invest and optimize revenue and risk across trust lands.</p>	 <p>Partnerships Expand resource and capacity to invest in, market and manage state trust lands.</p>
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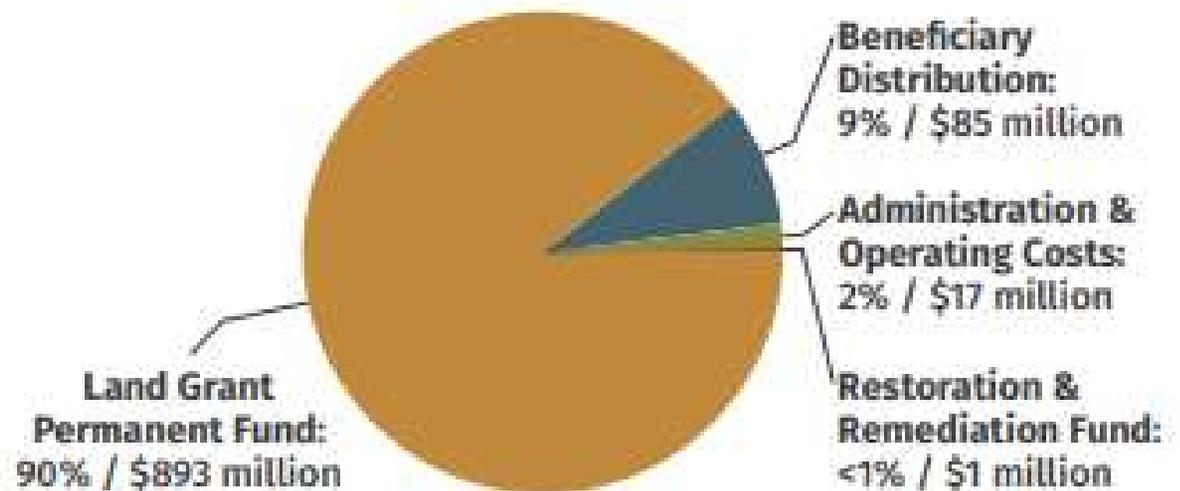
Land Management, Fiscal & Administrative Strategies



Alignment w/ State Economic Development & Energy Plans

How to **Replace** Oil & Gas Revenue on State Trust Lands?

Asking the wrong question



Main Takeaways

SLO and SIC have successfully **stabilized and decoupled** budgets from annual oil and gas revenue volatility

The report offers ideas for:

1. land management activities that offer the best opportunities to diversify revenue;
2. key fiscal and administrative strategies necessary to diversify revenue from state trust lands; and
3. improved stewardship for continued oil and natural gas activities.

The report identified a key challenges:

- a) The SLO requires capacity and flexibility to implement these ideas;
- b) Land and permanent fund management can be better aligned with state energy and economic diversification goals.

Align land management with energy and diversification goals

Land management activities that can help diversify revenue from New Mexico state trust lands.



Renewable energy:

Expand solar and wind generation, energy storage, and transmission.



Commercial development:

Develop the potential on state lands for manufacturing, real estate, and other development.



Outdoor recreation:

Diversify revenues beyond recreation through leases and partnerships.



Conservation:

Find ways to monetize the ecological and cultural values of state trust lands, via leases or participation in carbon markets.

Risk, reward, and authority

<< Less risk, less return		More risk, more return >>	
Passive approach	Moderate approach	Aggressive approach	
<ul style="list-style-type: none"> • The state waits for producers to request leases and develop resources. Lessee absorbs all risk. • The state receives fixed returns through rents and leases. 	<ul style="list-style-type: none"> • Through partnerships with developers and others, the state shares upfront costs and risks. • The state receives income through rents and leases, as well as a share of returns. 	<ul style="list-style-type: none"> • The state develops resources and produces commodities itself, paying all upfront costs and taking all risk. • The state receives all benefits and returns. 	

Figure 2. The continuum of risk and reward

Risk—and reward—vary along a continuum. In the passive approach, a state waits for others to develop resources and takes on little risk and little reward. In an aggressive approach the state conducts all development itself, absorbing all of the risk and reaping the reward. No state land office fits neatly into any single category. In addition, a state land office's portfolio may be diverse and include projects across the entire spectrum.

Risk, reward, and authority

Fiscal and administrative strategies that can help stabilize and diversify revenue.



Strategic planning:

Identify new market opportunities and position state assets to capture those opportunities and evaluate outcomes.



Active revenue models:

Increase the SLO's authority and capacity to direct how to prioritize, use, and allocate resources for state trust lands.



Portfolio management:

Implement a strategy that provides the SLO with authority to invest and optimize revenue and mitigate risk across all state trust lands.



Partnerships:

Expand resources and capacity to invest in, market, and manage state trust lands with partner organizations.

Managing risk in declining oil and gas production



Improved stewardship of continued oil and natural gas activities
will help stabilize revenue and avoid unanticipated costs and impacts.

- Mitigate resource impacts from oil and gas production
- Increase royalty rates on new leases
- Reclassify bonus payments and other revenue associated with the oil and gas industry as “non-renewable.”

3 Strategies to Leverage State Trust Lands to Diversify Revenue



State Trust Lands in the West

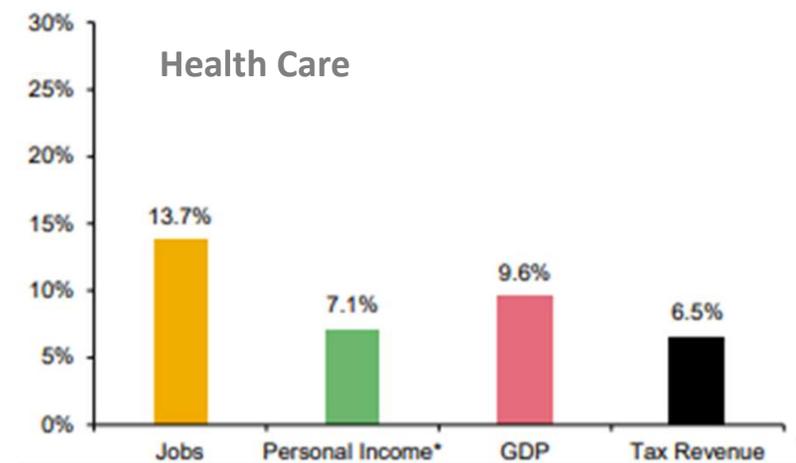
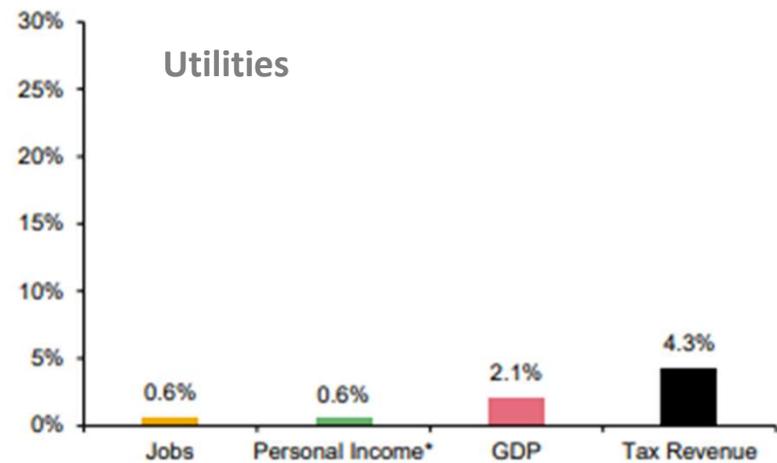
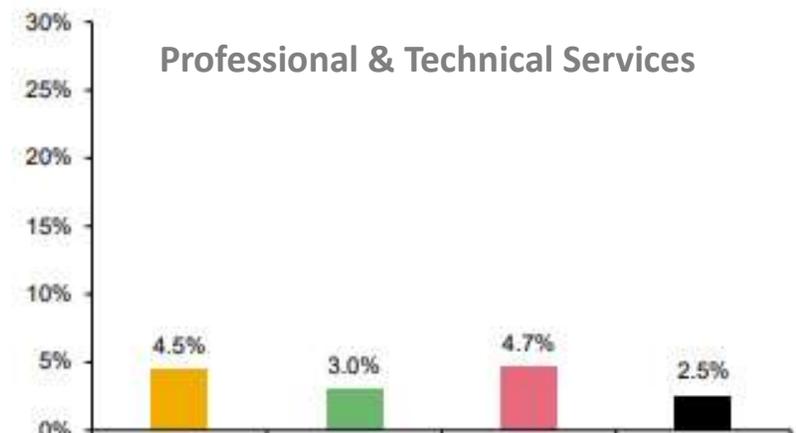
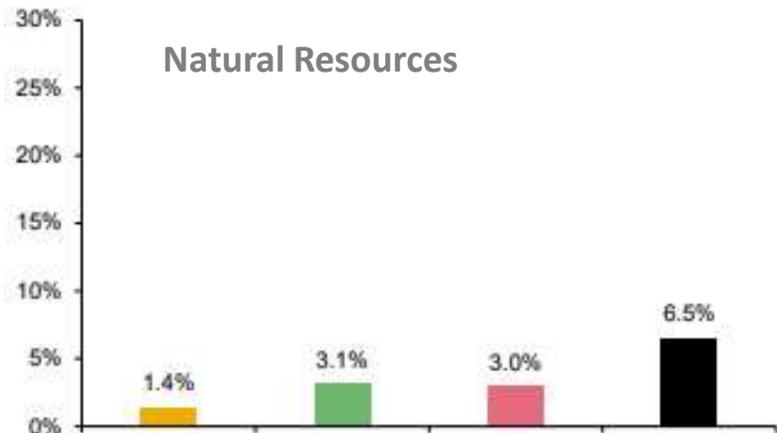


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<p>Land Management, Fiscal & Administrative Strategies</p>	

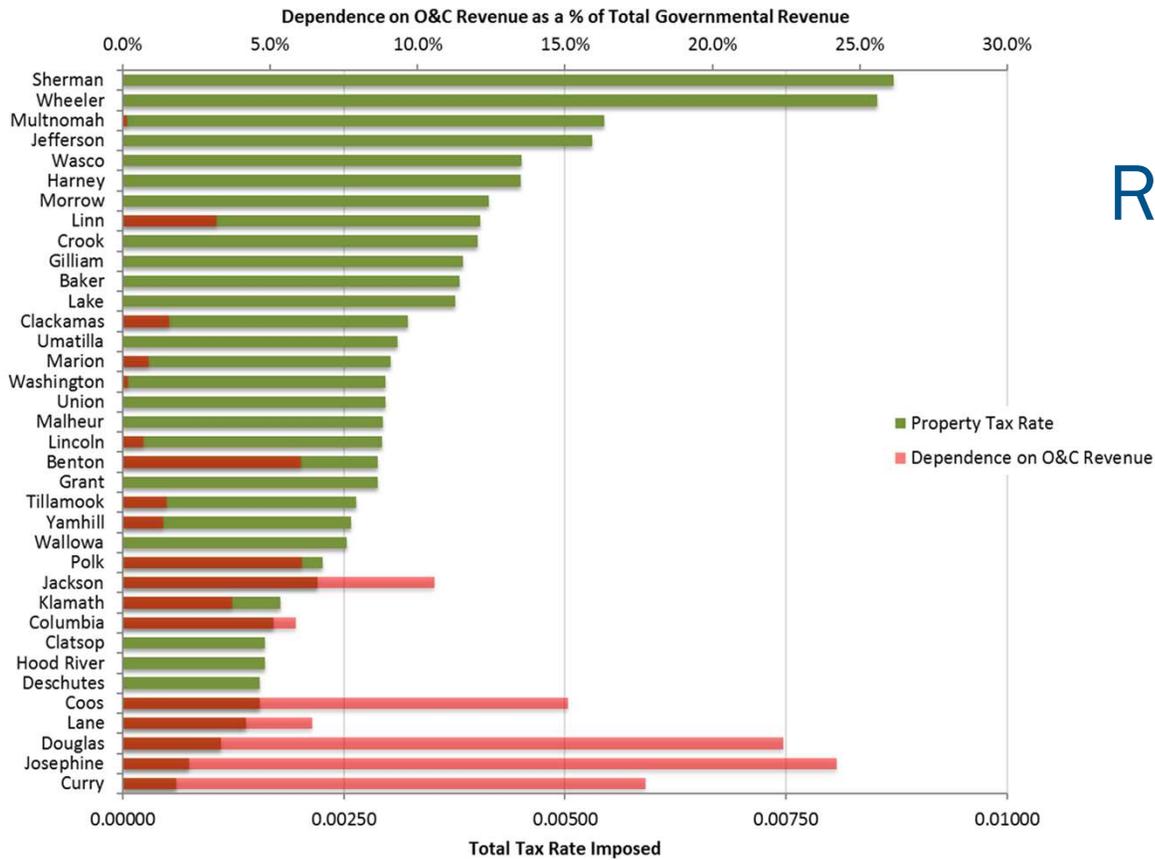


Alignment w/ State Economic Development & Energy Plans

Tax Policy is Misaligned with Underlying Economy



Montana Legislative Fiscal Division, General Fund Trends Relative to Gross State Product: Expanded. <https://leg.mt.gov/committees/interim/jsce/>



Non-Renewable Revenue is Treated Like Recurring Revenue

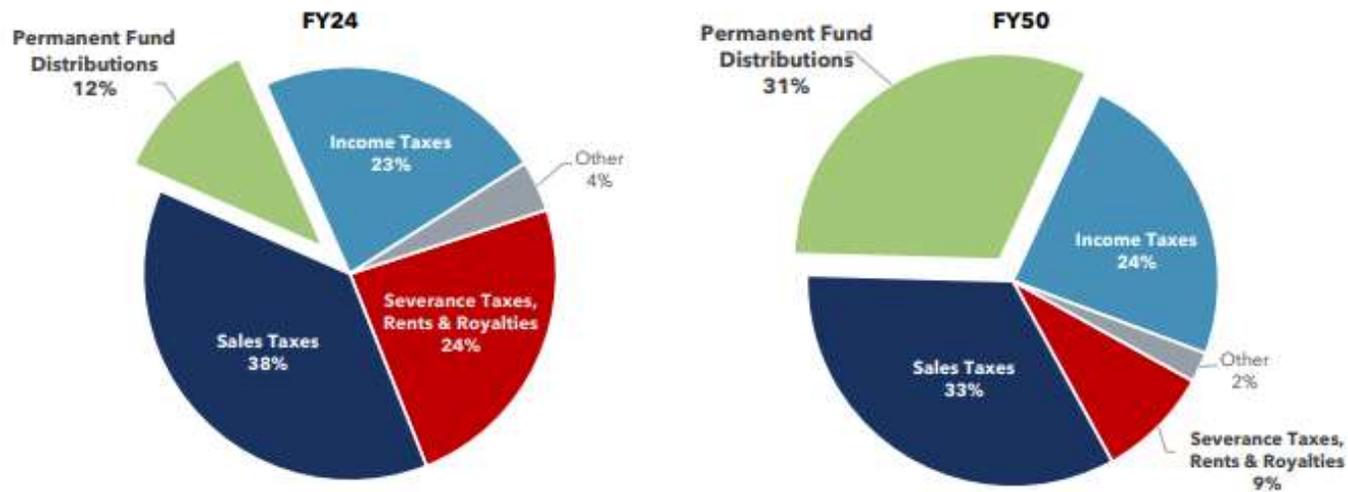
Oregon counties use timber revenue to maintain low taxes

TRANSITIONING FROM VOLATILE OIL & GAS RELIANCE TO MORE STABLE PERMANENT FUND DISTRIBUTIONS

In its July 2023 Long-Term Revenue Outlook, NM's Consensus Revenue Estimating Group projects general fund revenues from the oil and gas industry will decline over time as the world transitions beyond traditional energy sources.

As energy-related revenues decline, permanent fund distributions will grow significantly as a share of general fund revenue, helping to displace estimated future declines in oil and gas revenues.

Estimated Sources of General Fund Revenue



Source: NM State Investment Office analysis of NM Consensus Revenue Estimating Group Long-Term Revenue Outlook, July 2023, Baseline Scenario

A diversified economy has multiple strong sectors that enhance revenue generation

New Mexico's economic composition

Together, these eight main sectors account for approximately 70% of each dimension. The Government is the clear dominant sector in the three. Real estate and Mining stand out for their large share in GDP, but significant smaller shares in jobs and labor income. Similarly, Retail Trade and Accommodation shine in Job share, but they have less predominance in the other dimensions. Professional services and Health Care distinguish themselves for their consistency.

Dominant	2022 GDP Share	2022 Jobs Share	2022 Personal Income Share
Government	23.68%	17.54%	24.75%
Main - 1st tier	2022 GDP Share	2022 Jobs Share	2022 Personal Income Share
Professional, scientific, & technical services	9.09%	7.89%	11.67%
Health care & social assistance	7.85%	12.23%	11.7%
Retail trade	5.32%	9.84%	6.38%
Main - 2nd tier	2022 GDP Share	2022 Jobs Share	2022 Personal Income Share
Real estate and rental & leasing	12.13%	4.3%	3.03%
Mining and oil & gas extraction	8.19%	2.46%	4.34%
Construction	3.66%	5.94%	6.25%
Accommodation & food services	3.61%	8.1%	4.62%

Revenue contribution by sector

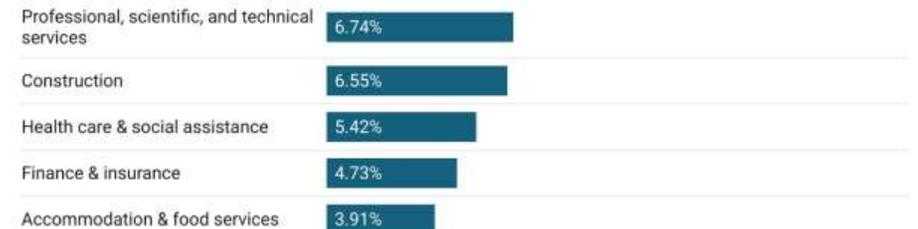
(2022 share of general fund)

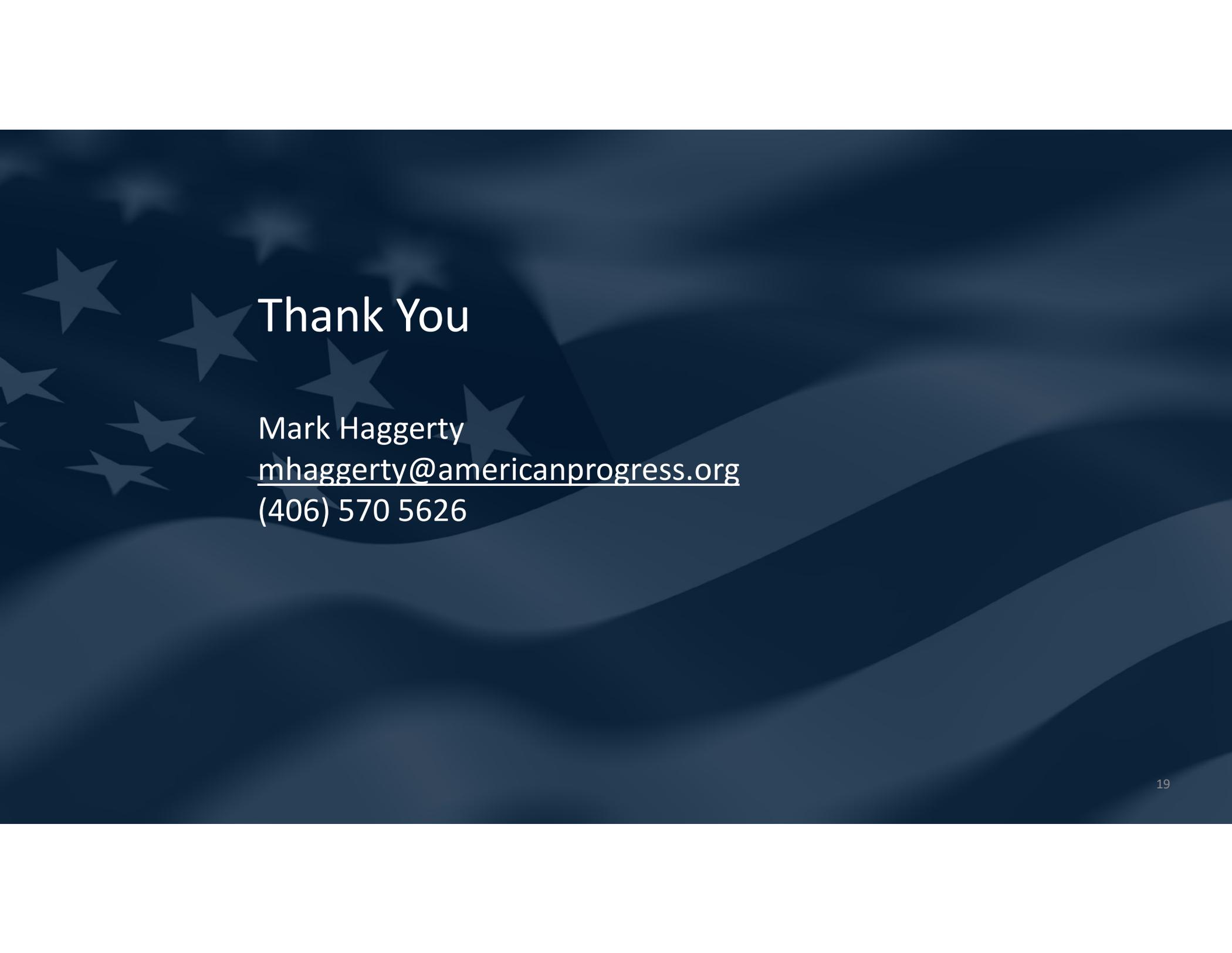
It is a conservative estimate of Oil & Gas contribution to the General Fund. CREG has a more robust estimation for the sector. The purpose was to show the sectorial contribution landscape.

Main contributors



2nd-tier contributors



The background of the slide is a dark blue, stylized representation of the American flag. It features a field of white stars in the upper left corner and wavy horizontal stripes in shades of blue and white across the rest of the page.

Thank You

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