



NEW MEXICO

STATE LAND OFFICE

*When we Take Care of our Land, Our Land Takes Care of us!*

# FY 2016 Appropriation Request

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Commissioner of Public lands**

**Presented to the Legislative Finance Committee  
November 19, 2014**

# FY 2016 Appropriation Request

## Budget Overview

- Over the past three years, the Land Office has generated over \$2.0 billion for our public schools, universities, and hospitals. **FY 14 marked the highest year on record** and earnings are projected to remain strong but lower in FY15 and FY16
- This revenue accounts for about 8.6 percent of the General Fund, **saving the average household over \$850 a year in taxes.** About 94% of Land Office earnings support education, covering approximately 22% of the operating budget of public schools.
- The Land Office **base budget request represents only about 2.1% of the total projected earnings** and is completely funded by the revenue it earns. With an annual budget of about \$14 million in FY 2014, **the Land Office earned an average of approximately \$3.1 million per day.**

## Priorities

- **Human Resources**
  - \* Fill positions to reach a 2.5% vacancy rate (recruit and retain professional staff)
  - \* Ensure employee salaries reflect experience levels and are appropriately aligned with each position's pay band
  - \* Invest in training to enhance needed skills and optimize opportunities
- **Optimize Revenue**
  - \* Develop new revenue streams
  - \* Update fee schedules
  - \* Enhance audit programs that identify revenue due
  - \* Develop partnerships that lead to new revenue opportunities
- **Enhance the Health and Productivity of Trust Lands (One Health Program)**
  - \* Reduce risk of wildfire on state trust land near urban areas
  - \* Clean up illegal dumping
  - \* Mitigate invasive species
  - \* Respond to environmental threats

*With record earnings, and many potential opportunities to increase income for Trust beneficiaries while creating jobs for New Mexicans, now is the time to invest in the Land Office.*



# Revenue Overview

Income Category	Actual 6/30/13	Actual 6/30/14	FY 2015 Estimates	FY 2016 Estimates
INCOME RECEIPTS	\$ 70,955.2	\$ 73,800.1	\$ 64,301.0	\$ 65,596.2
OTHER INCOME RECEIPTS	\$ 1,040.9	\$ 921.7	\$ 922.0	\$ 946.9
<b>TOTAL INCOME RECEIPTS</b>	<b>\$ 71,996.1</b>	<b>\$ 74,721.8</b>	<b>\$ 65,223.0</b>	<b>\$ 66,543.1</b>
TOTAL ROYALTY RECEIPTS	\$ 505,488.3	\$ 741,927.4	\$ 738,728.0	\$663,686.1
<b>GRAND TOTAL</b>	<b>\$ 577,484.4</b>	<b>\$ 816,649.2</b>	<b>\$ 803,951.0</b>	<b>\$ 730,229.2</b>

- **8.7% of FY 2015 General Fund estimates come from Land Office revenues** (8-2014 Consensus Revenue Estimates)
- **Record Setting Revenue**
  - FY 2012 \$652.3 Million
  - FY 2013 \$577.5 Million
  - FY 2014 \$816.6 Million (highest record in State's history)
- **FY 2015 revenue projected at \$804.0 Million**
  - \* Oil prices dropping (Average \$86.28/BBL) but production is expected to increase by 9%.
  - \* Prices in the estimate range from a high \$93.91 to a low of \$75.99
  - \* Oil prices remain volatile
  - \* Gas prices flat with production expected to drop by 1.1%
  - \* Land Maintenance Fund expected to drop due to decrease in oil and gas lease bonus sales.
- **FY 2016 revenue projected at \$730.2 Million**
  - Significant drop in oil prices (Average \$74.90/BBL) with a 5.3% increase in production over FY 2015 estimated production levels.
  - Price in the estimate range from a high of \$76.04 to a low of \$65.63
  - Gas production is projected to decrease by 2.8% with flat price/mcf
  - Land Maintenance Fund increase over FY 2015 based on projected increase in Grazing leasing (drought impact) and increase in Commercial leasing (pick up in renewable energy leasing)

# Beneficiary Distribution Overview

Land Maintenance Fund	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Est.	FY 2016 Est.
PUBLIC SCHOOLS	\$ 65,620,178	\$ 92,507,769	\$ 44,631,955	\$ 47,480,532	\$ 36,582,757	\$ 39,666,625
COLLEGES & UNIVERSITIES	\$ 4,276,613	\$ 6,516,256	\$ 2,531,805	\$ 2,730,180	\$ 2,995,824	\$ 3,022,443
SPECIAL SCHOOLS	\$ 1,442,816	\$ 633,625	\$ 1,460,773	\$ 840,793	\$ 738,303	\$ 524,240
HOSPITALS	\$ 941,250	\$ 3,568,257	\$ 3,941,448	\$ 3,315,658	\$ 2,253,522	\$ 885,725
ALL OTHER INSTITUTIONS	\$ 2,367,993	\$ 1,812,113	\$ 4,849,363	\$ 3,714,158	\$ 2,509,562	\$ 1,939,797
<b>TOTAL</b>	<b>\$ 74,648,850</b>	<b>\$ 105,038,020</b>	<b>\$ 57,415,345</b>	<b>\$ 58,081,322</b>	<b>\$ 45,079,969</b>	<b>\$ 46,038,829</b>

\$ -

Land Grant Permanent Fund	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Est.	FY 2016 Est.
COMMON SCHOOLS	446,227,167	461,737,162	440,876,338	450,133,473	501,736,260	553,321,336
COLLEGES & UNIVERSITIES	31,253,422	32,019,400	30,073,687	29,528,359	32,699,085	35,722,363
SPECIAL SCHOOLS	22,134,589	22,688,759	21,337,941	21,100,256	23,387,910	25,620,365
HOSPITALS	\$ 6,786,050	\$ 6,843,781	\$ 6,346,894	\$ 6,540,853	\$ 7,287,114	\$ 8,019,283
ALL OTHER INSTITUTIONS	\$ 29,501,780	\$ 30,129,214	\$ 28,211,689	\$ 27,853,667	\$ 30,883,533	\$ 33,800,815
<b>TOTAL</b>	<b>535,903,008</b>	<b>553,418,316</b>	<b>526,846,548</b>	<b>535,156,608</b>	<b>595,993,902</b>	<b>656,484,162</b>

CP&R is shared equally by Carrie Tingley Hospital, Las Vegas Medical Center (The Behavioral Health Institute), Los Lunas Hospital, Miners' Colfax Medical Center, Penitentiary of New Mexico, and the New Mexico Boys' School and Girl's Welfare Home (CYFD-The Youth Diagnostic and Development Center).

Combined Distribution:	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Est.	FY 2016 Est.
COMMON SCHOOLS	\$ 511,847,345	\$ 554,244,931	\$ 485,508,293	\$ 497,614,005	\$ 538,319,017	\$ 592,987,961
COLLEGES & UNIVERSITIES	\$ 35,530,035	\$ 38,535,656	\$ 32,605,492	\$ 32,259,170	\$ 35,697,552	\$ 38,809,517
SPECIAL SCHOOLS	\$ 23,577,405	\$ 23,322,384	\$ 22,798,715	\$ 21,941,049	\$ 24,126,214	\$ 26,144,605
HOSPITALS	\$ 7,727,300	\$ 10,412,038	\$ 10,288,341	\$ 9,856,511	\$ 9,540,636	\$ 8,905,007
ALL OTHER INSTITUTIONS	\$ 31,869,773	\$ 31,941,327	\$ 33,061,052	\$ 31,567,825	\$ 33,393,095	\$ 35,740,611
<b>TOTAL</b>	<b>\$ 610,551,858</b>	<b>\$ 658,456,336</b>	<b>\$ 584,261,893</b>	<b>\$ 593,238,560</b>	<b>\$ 641,076,513</b>	<b>\$ 702,587,702</b>

Total Education	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Est.	FY 2016 Est.
	\$ 570,954,785	\$ 616,102,971	\$ 540,912,500	\$ 551,814,225	\$ 598,142,782	\$ 657,942,083
	93.5%	93.6%	92.6%	93.0%	93.3%	93.6%



FY 2015 and FY 2016 LMF Distributions projected; LGPF Contributions projected for FY 2015  
2015 and 2016 return on investment estimated at 5% to arrive at estimated LGPF distribution in FY 2016.

# FY 2016 Appropriation Request

## Base Budget Request

- Total Projected Revenue FY 2016: **\$730.2 Million**
- Request: \$15,437.6
- Overall increase of 4.5%
  - \* Salaries and Benefits
    - ◆ Increase of 4.7%
    - ◆ Insurance rates (Risk Management) .5% of the increase
    - ◆ Decreased vacancy rate to 2.5% (4 FTE)
    - ◆ Benefit increase attributed to increase in filled positions
    - ◆ Includes known personnel actions
  - \* Contractual Services
    - ◆ Other Financing Uses shifted to Contractual Services
      - ◆ DFA State Budget Division requirement
      - ◆ Support for the ONGARD Service Center includes 5% increase
    - ◆ Otherwise flat compared to FY 2015
  - \* Other Costs
    - ◆ 4.7% increase over FY 2015
    - ◆ Increase out-of-state travel to support audits
    - ◆ Increased usage in mainframe and telecommunications charges
    - ◆ Includes cost of maintaining facility and upgrades to office cubicles
  - \* Other Financing Uses (ONGARD Service Center) moved to Contractual Services

### Base Request:

- ⇒ 2.1% of total projected revenue in FY 2016
- ⇒ 23.2% of projected income revenue (LMF) in FY 2016

# FY 2016 Appropriation Request

## Summary of Additional Requests

### Expansions (\$200.0 FY 2016 Recurring Revenue)

- Hazardous Fuels Reduction and Dumpsite Cleanup (\$200.0): Funding would be used by the Field Division to reduce the threat of forest fires near communities and clean up illegal dumpsites that pose a health and safety hazard as well as a financial liability to the Trust.

### Specials (\$1,681.1 FY 2015 Non-Recurring Revenue)

- Digitalization of Rights of Way Data (\$260.0): Phase 2 of this project. Funding would be used to convert historical rights-of-way parcel location information into a GIS framework. This information is currently contained in paper files that makes it difficult for staff to process revenue generating business in a timely manner and be responsive to our customers.
- Litigation Expenses (\$1,421.1): cover projected legal costs claimed under a 2007 Attorney General and NMSLO joint contract
- ONGARD Modernization: (\$3,666.0 FY 2015 Revenue; \$3,667.0 FY 2016 Revenue and \$3,667.0 FY 2017 Revenue)

### Capital Outlay Requests (\$850.0 FY 2015 Non-Recurring Revenue; \$1,135.0 FY 2016 Non-Recurring Revenue)

- Electrical Distribution System Upgrade (\$350.0): Phase 2 - replace main switchboard and branch circuit panel boards and motor control center
- Solar Panels (\$500.0): Design and install solar panels on State Land Office roof
- Sprinkler/Ceiling Replacement (\$985.0): Complete project to install sprinklers and replace ceilings and light fixtures
- Storage Systems (\$150.0): Bi-lateral filing systems to maximize space

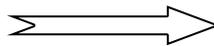
	Total Special/Capital and Expansion Requests	% of Total Revenue	% of LMF
FY 2015 Revenue	\$6,197.1	1.1%	9.5%
FY 2016 Revenue	\$5,002.0	.7%	7.5%

# FY 2016 Appropriation Request

## Base Expansion

### Hazardous Fuel Reduction & Dumpsite Cleanup - \$200.0

- Forest fires continue to be a major threat on State Trust Land, especially near communities. The request would allow the Land Office to increase land treated through forest thinning projects on 25,000 acres of State Trust Lands in priority areas. The Land Office partners with federal, state and local entities to leverage project funds.
- There are over 1,200 caliche pits and illegal dumpsites on State Trust Land that pose a health and safety hazards as well as potential financial liability to the Trust (200 inactive caliche pits and 1,000 illegal dumpsites have been identified for cleanup subject to the availability of funding).



Base plus Expansion Request \$15,637.6

- ⇒ 2.14% of total projected revenue in FY 2016
- ⇒ 23.5% of projected income revenue (LMF) in FY 2016



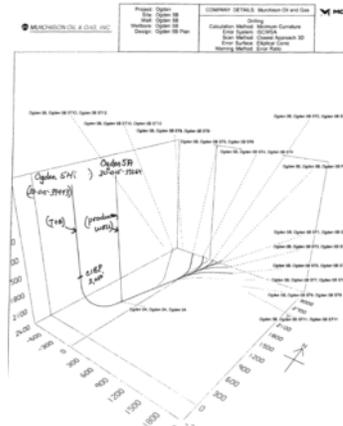
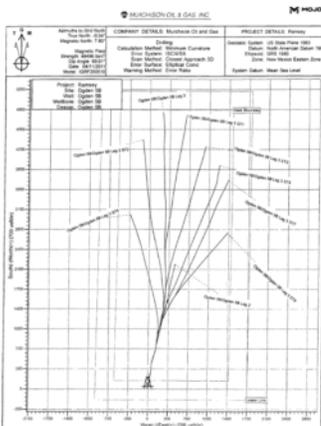
# 2015-2016 Non-Recurring Appropriations Special Appropriation Requests

## ONGARD Modernization

- Current ONGARD System
  - \* Tri-Agency (ENMRD, TRD, and NMSLO) Collaboration
  - \* 20 Year old COBOL system to collect taxes and royalties due from extraction of minerals; 30% of state revenue collected
  - \* Antiquated and inflexible technology infrastructure.
  - \* Human resources with appropriate skills unavailable to hire or prohibitively expensive to maintain
- Changes in the Industry
  - \* Horizontal and multilateral drilling - access to formations not previously profitable
  - \* Need current and flexible technology in order to adapt to change efficiently and effectively
- \* Changes in Business Processes
  - \* Lessons learned over 20 years
  - \* Increase efficiency of collections and audits

### ONGARD: Funding

- \* 2012: \$6 Million appropriated
  - ◇ Stabilization completed
  - ◇ Business Process Analysis in process; will result in functional requirements
  - ◇ Backfill subject matter experts
  - ◇ \$1,000,000 is currently not allocated
- \* Requested \$33M (\$11 M/Year)
  - ◇ Two-thirds from the Computer Enhancement Fund TRD (C-2) with one third from NMSLO Land Maintenance Funds
  - ◇ Based on Function Point Analysis - estimates cost to rebuild a system based on complexity and functionality of current system
  - ◇ With the State Trust Land revenue at an all time high, now is the time to invest Land Maintenance Funds



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ONGARD
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# 2015-2016 Non-Recurring Appropriations

## Special Appropriation Requests

### Litigation Expenses - \$1,421.1

- Settles claims for expenses under a multi-year contract that was entered into in 2007 by the previous administration (expired 6/30/2011).
- Lawsuit filed by contractor against the Land Office alleging breach of contract for litigation costs associated with an unsuccessful claims against oil and gas producers.
  - \* \$362,420.59 paid between 2008 and 2010.
  - \* Prior request for the balance of the claimed expenses not funded
    - ◇ 2012 Legislative Session \$1,800.0 requested.
  - \* Funding would allow the Land Office to make an offer without a contingency clause for a legislative appropriation.
  - \* Settlement could reduce litigation costs and mitigate the possibility of a greater judgment being awarded.

# 2015-2016 Non-Recurring Appropriations Capital Projects

Total Requests-\$1,985.0

- \* **Safety and security** of employees and historical records.
- \* **Cost savings** possible by moving to new technology for energy conservation, lighting and telecommunications.
- **2015 Revenue** for 2016 Projects - \$850.0
  - \* Electrical Distribution System Upgrade - \$350.0
  - \* Solar Panels - \$500.0
- **2016 Revenue** for 2017 Projects - \$1,135.0
  - \* Storage Systems - \$150.0
  - \* Ceiling and lighting replacement with installation of Fire Sprinklers over two years \$985.0

Electrical Distribution System

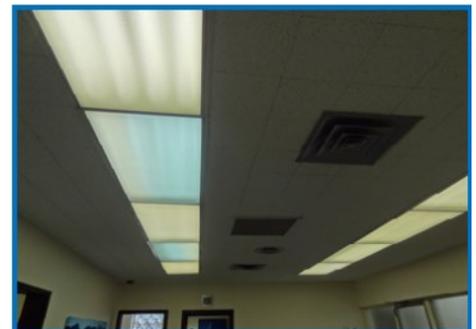


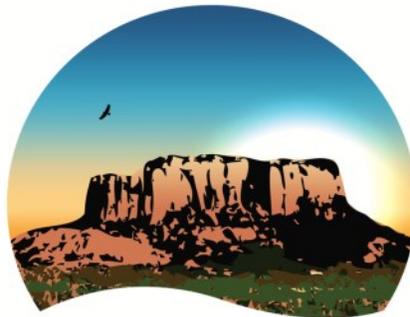
Flat Rooftop Solar Panels



Existing Ceilings and Light Fixtures

Bi-Lateral Filing System for Active File





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