LFC Requester:	Gaussoin

AGENCY BILL ANALYSIS
2024 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:

Analysis.nmlegis.gov

{Analysis must be uploaded as a PDF}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Original x **Amendment** ____
Correction ____ **Substitute** ____

Date 1/16/24
Bill No: HB 48

Sponsor: McQueen
Short Title: Oil and Gas Royalty Rate

Agency Name and Code Number: SIC 337
Person Writing Iglesias
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24-26	FY27	FY28		
	$50,000.0 - $84,000.0	**$50,000.0 - $84,000.0**	Recurring	Land Grant Permanent Fund
	Future increased distributions from the LGPF – see fiscal implications		Recurring	LGPF Beneficiaries

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Bill 48 amends the State Land Office lease form for certain oil and gas tracts of state trust land to increase the maximum royalty rate from 20 percent to 25 percent of the value of oil or gas produced. The effective date of this bill is July 1, 2024.

FISCAL IMPLICATIONS

The increased royalty rate provided in this bill would only affect new leases, and since production typically begins two or three years after a lease is signed, the royalty rate increase would likely have no impact until FY27. Without data on the availability of new leases or the production potential on newly leased lands, SIC staff are unable to estimate the amount of additional revenue that could be generated by the royalty rate increase. However, analysis from the State Land Office (SLO) of previous versions of this bill (e.g. SB 164 of the 2023 session) suggest the Land Grant Permanent Fund (LGPF) could receive an average annual revenue increase of $50 million to $84 million. Based on these figures, the market value of the LGPF could be $1.5 billion to $2.5 billion larger by 2050.

Royalty revenue generated from oil and gas production on state trust lands is deposited into the LGPF, which makes annual distributions to the general fund and other beneficiaries based on a 5-year rolling average. Therefore, any additional revenue to the LGPF would ultimately increase distributions to LGPF beneficiaries. Using the previous SLO estimates for additional annual revenue to the LGPF, SIC staff estimate LGPF beneficiaries could receive an additional $750 million to $1.3 billion in cumulative distributions through 2050, approximately 87 percent of which would benefit the general fund through distributions to common schools. This estimate assumes the LGPF target annual average return of 7 percent.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS