BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 3, 2024

Bill: SB-64 **Sponsor:** Senator Ron Griggs

Short Title: Severance Tax Exemption for Certain Projects

Description: This bill creates a new exemption from oil and gas severance tax on natural gas severed from a stripper well property and sold from a production compliance project during the first ten years of production following the completion of the project, or until the date the total amount of tax that would have been imposed equals the cost of the production compliance project. The bill also creates an exemption from oil and gas severance tax on oil and other liquid hydrocarbons removed from natural gas at or near the wellhead from a stripper well property production compliance project under the same provisions. The bill provides definitions for a production compliance project and the requirements for approval by the Oil Conservation Division (OCD) of the Energy, Minerals and Natural Resources Department (EMNRD) and application procedures for certification. EMNRD will notify Taxation and Revenue Department (Tax & Rev) of certification. The person responsible for paying the oil and gas severance tax shall qualify to receive the production compliance project tax exemption by applying to Tax & Rev, submitting the certification, and submitting verifiable total cost of compliance, and submitting any other relevant material necessary administer the application provisions.

Effective Date: Applicability to projects completed on or after July 1, 2024. Effective date not specified; 90 days following adjournment (May 15, 2024).

Taxation and Revenue Department Analyst: Asif Rasool

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	FY2025	FY2026	FY2027	FY2028		
--	($3,900)	($4,500)	($4,200)	($4,400)	R	Severance Tax Permanent Fund
--	--	--	($35)	($115)	R	General Fund – Interest Earnings from Severance Tax Permanent Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: Tax & Rev obtained historical data on natural gas flared or vented from the U.S. Energy Information Administration (EIA). Tax & Rev utilized a five-year average of natural gas volumes and applied the growth rates estimated by the Consensus Revenue Estimating Group (CREG) in its December 2023 forecast. By incorporating estimated natural gas prices, Tax & Rev calculated the taxable value based on the qualifying volumes. However, the specific wells that qualify as "production compliance projects" are currently unclear. As a result of this uncertainty, it is assumed that the growth rate of natural gas vented or flared will align with the overall natural gas production estimated by the CREG.

This exemption of a portion of natural gas or oil from the Oil and Gas Severance Tax will lower the amount of revenue going into the Severance Tax Permanent Fund and thus lower future interest income that is distributed to the general fund. The estimated impact is based on the CREG's December 2023 forecast for the interest earnings on the Severance Tax Permanent Fund. The lower revenue to the Severance Tax Permanent Fund would have a secondary impact of reducing tax bonding capacity. Tax &

Rev would defer to the Department of Finance and Administration's (DFA) analysis of these impacts.

Policy Issues: The exemption from severance tax for vented or flared products would subsidize the costs of taxpayers to meet compliance under business regulations promulgated by OCD. This would set a precedent in tax policy that businesses may lower their tax liability to financially support complying with other business regulations and laws for operations. All business across all industries have business costs to meet varying laws, regulations and reporting. This would erode horizontal equity among taxpayers.

Technical Issues:
Section 4: On page 12, line 4, after "well" insert "property", to state "stripper well property" as defined in current statute under 7-29B-2 NMSA 1978.

Section 7: Sub-section B, sub-paragraph 3 on page 18, lines 2 through 4 should clarify whether the verifiable costs are submitted to Tax & Rev or the EMNRD.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev will need to make information system changes and update forms, instructions and publications. Implementing this bill would have a high impact on Tax & Rev's Information Technology Division (ITD), approximately 2,100 hours or about 13 months and $462,000 of contractual cost. This requires a new special tax rate to be configured, system tracking of the exemption amounts and data interfaces between GenTax and EMNRD to meet the implementation requirements of this bill.

An effective date is not specified, consequently the effective is 90 days following adjournment (May 15, 2024). Considering the effort to implement this bill is approximately 13 months, an effective date of July 1, 2025, is recommended.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2024	FY2025	FY2026	3 Year Total Cost		
$462	--	--	$462	NR	Tax & Rev- ITD contractual

Related Bills: Similar to SB-443 (2023 Session).