NEW MEXICO VOICES FOR CHILDREN

POLICY BRIEF

Ensuring a Fair Share

Modernizing Federal Oil and Gas Revenue Policies

The problem

The oil and natural gas lying beneath our public lands belongs to us all. That's why we require oil and gas companies to pay rents and royalties for what they extract. New Mexico uses this revenue to fund schools, hospitals, and other public infrastructure and the industry gets to sell the oil and gas for a profit. It's a win-win, right?

It should be, but New Mexico's school children are not getting their fair share of oil and gas revenues. That's because the rental and royalty rates for drilling on federal lands are beyond outdated; some have not been revised in nearly a century. Over time, our state has lost out on billions of dollars that could have been used for teacher raises, school materials, and supporting student success in the classroom.

By the Numbers

32% of our state's general fund is supported by oil and gas.

48% of oil and gas payments went towards New Mexico schools (2017-18).[1]

53% of oil production in New Mexico takes place on federal lands.

63% of natural gas production in New Mexico takes place on federal lands.[2]

3rd largest oil-producing state.

How it works

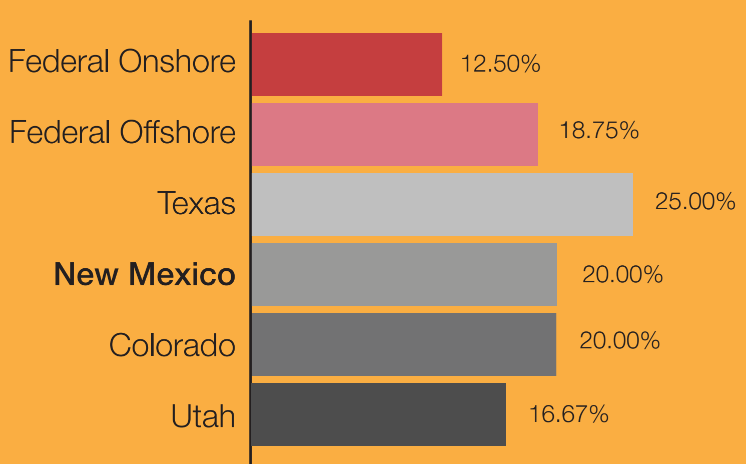
Oil and gas production can take place on federal, state, tribal, or private land. On federal land, New Mexicans are supposed to receive 'fair market value for the use of the public lands and their resources,' including from oil and gas production.[3]

New Mexico determines how much is charged for oil and gas production on *state* public lands. But when it comes to oil and gas production on *federal* public lands, the rates are set by the Bureau of Land Management (BLM) within the Department of the Interior. The revenue that's collected through royalty rates, rental rates, and minimum lease bids is then split roughly 50/50 with the state.

The BLM's rates, however, are severely outdated. The royalty rates have not been updated in over a century, and the rental rate and minimum lease bids have not been updated in decades. Meanwhile, oil and gas production has grown tremendously in New Mexico and oil and gas companies have become more and more profitable. This is particularly problematic for New Mexico because the state has a higher share than any other state of oil and natural gas production on federal lands, and we are losing out the most from BLM's outdated policies.

The result of these policies is that federal royalty rates are lower than New Mexico's rates and the rates of surrounding states. That's because many western states have strengthened their own fiscal policies to give a fair deal to taxpayers. In New Mexico, the royalty rate for production on state lands is as high as 20% compared to just 12.5% for production on federal lands. Even the federal offshore rate is higher.

State royalty rates for oil and gas



What the federal rates cover

Royalties – a share of the production value of the oil or gas extracted: **12.5%** (onshore rate)

Last updated: 1920

Rentals – the annual, per-acre fee paid by lease owners: **$1.50/acre** for first 5 years, **$2.00/acre** for next 5 years

Last updated: 1987

Minimum lease bids – minimum acceptable bid to lease federal land for oil and gas extraction: **$2.00/acre**

Last updated: 1987

Impact on revenue and production

Over the last decade, *oil* production from federal leases has boomed with a cumulative total of 554 billion barrels sold, making New Mexico the largest producer of oil from federal lands. Over the same period, 8 trillion cubic feet of natural gas was produced from federal lands in New Mexico, more than from any other state except Wyoming.

While this production has resulted in substantial revenue for the state, New Mexico has lost out on billions of dollars of additional revenue due to BLM's outdated rates. If the prevailing federal offshore rate of 18.75% had been imposed, for example, New Mexico would have received $2.5 billion more in revenue this past decade. That's revenue that could have been used in our classrooms and put toward critical community investments. Similarly, if the rental rates and mineral leasing bids had been annually adjusted for inflation, New Mexico could have benefited from an additional $10 million.[4]

Updating the rates is smart policy, and there is no evidence to suggest that doing so would significantly impact oil and gas production. In fact, independent analyses by the Government Accountability Office and the Congressional Budget Office have both determined that revised rates could increase revenues up to $90 million per year, while having a minimal impact on production. Officials in Colorado and Texas have said that they raised the royalty rates for oil and gas production on state lands without a significant effect on production. Colorado, which increased its rate most recently from 16.67 percent to 20 percent has seen no change in interest in new leases either.[5]

When production levels do fluctuate, it's usually because there are a number of physical and technical factors, as well as broader market forces that influence whether companies decide to produce oil and gas, and not the prevailing royalty and rental rates. These include the likelihood of finding oil or gas at a certain location, how much is available if it is found, the estimated extraction costs, anticipated oil and gas prices, and the cost of capital.[6]

The solution

It's long past time for the BLM to update its rates. Our children are paying the price, and taxpayers should get a fair return for the natural resources that belong to ALL of us.

Recommendations

- Increase current minimums:
    1. Royalty rates from 12.5% to 18.75%
    2. Rental rates from $1.50/$2.00 to $3.00/$5.00
    3. Lease bids from $2/acre to $10/acre
- Adjust periodically to ensure that taxpayers are receiving their fair share as mandated under federal law.

1 New Mexico Tax Research Institute. January 2019. State and Local Revenue Impacts of the Oil and Gas Industry.
2 Moss Adams. 2019. New Mexico: A Comparative Analysis.
3 43 U.S.C. § 1701(a)(9)
4 Taxpayers for Common Sense. 2019. "New Mexico's boom that cost billions: how federal oil & gas policies fail taxpayers."
5 United States Government Accountability Office. June 2017. "Oil Gas, and coal royalties: Raising federal rates could decrease production on federal lands but increase federal revenue."
6 Congressional Budget Office. 2016. "Options for Increasing Federal Income From Crude Oil and Natural Gas on Federal Lands."

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