

New Report Analyzes Energy Impacts on New Mexico, Reviews Impact of Possible Drilling in Otero County



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A new report analyzes the economic and fiscal contribution of the oil and natural gas industries in New Mexico along with a case study of proposed energy development on Otero Mesa in Otero County that asks whether potential drilling there would create more benefits than it would foreclose. The study then concludes with five public policy options.

“Jobs and personal income from industries associated with the extraction of fossil fuels are a small part of New Mexico’s economy,” said Ben Alexander, the report’s lead author. “Even at the height of the recent energy surge, these industries accounted for two percent of all employment and three percent of total personal income in the state.”

However, oil and natural gas revenue is a major revenue source for New Mexico and accounted for 18 percent of all state and local revenue in 2007. “While the state does a good job of capturing value from oil and natural gas resources, New Mexico is exposed to significant volatility in energy revenue,” according to Alexander. “The state also returns the lowest proportion of oil and natural gas revenue to local government in the Intermountain West.”

The analysis by Headwaters Economics, *Potential Impacts of Energy Development in New Mexico, With a Case Study of Otero County*, also found that drilling proposed by the Bureau of Land Management on Otero Mesa would provide little employment and revenue—even at peak production—to either the state or county, and that energy development proceeds to the county may not cover the county’s share of infrastructure and service costs.

“Our analysis shows that Otero County’s economy would see little to no benefit from projected fossil fuel extraction,” noted Alexander. The BLM’s assessment agrees that the economic magnitude of proposed drilling is limited. The agency’s planning document states that “the total positive benefits are not anticipated to produce a significant impact.”

The Headwaters Economics report found that the economic impact of BLM-proposed development of fossil fuels in Otero County would represent one percent of total employment for a period of only four years—and would have even less consequence for Otero County when adverse impacts, employment leakages, and the recent downturn in energy prices are taken into account.

Revenue to Otero County from proposed drilling also is small. The majority of expected revenue would come from oil and natural gas property and equipment taxes, peaking at about \$285,000 in annual revenue—or the equivalent of 1.3 percent of total revenue from all sources for Otero County in 2007.

“There is a case to be made that the fragile nature of this unique desert grasslands has intrinsic value and could not be remediated after disturbance,” said Alexander. “When combined with economic sectors such as agriculture, tourism, and recently increasing service and professional jobs that could be negatively affected by drilling, it is difficult to see how the limited revenue and economic activity from proposed energy development in Otero County would benefit the state or region in net terms.”

[Note: The full report can be found at www.headwaterseconomics.org/energy. A four-page Digest also is online and attached to this email.]

The report concludes with five public policy options:

- 1) Further delink essential annual government services from highly volatile revenue sources such as oil and natural gas revenue;
- 2) Utilize more aggressive saving and hedging strategies to manage revenue risk;
- 3) Provide larger and more predictable intergovernmental transfers of energy revenue to local government to help mitigate the impacts of industry activities without harming economic development opportunities in other sectors;
- 4) Support more detailed study of the Salt Basin Aquifer and guard this resource for measured future use.
- 5) Protect and brand landscapes like Otero Mesa to build on the region’s tourism industry and, more importantly, to cultivate a growing service and retirement economy as a diversification strategy.

Headwaters Economics is an independent, nonprofit research group focused on improving community development and land management decisions in the West.

The *New Mexico* report will assist the public and elected officials in making informed choices about energy development to benefit the region over the long-term. The study is the eighth in Headwaters Economics’ *Energy and the West* series which can be found at www.headwaterseconomics.org/energy.