FISCAL IMPACT REPORT

		LAST UPDATED	2/5/25
SPONSOR	Sen. Stewart/Reps. Ortez and Romero, A	**ORIGINAL DATE**	1/27/25
SHORT TITLE	Clear Horizons & Greenhouse Gas Emissions	**BILL NUMBER**	Senate Bill 4/aSCONC
		ANALYST	Davidson/Torres

APPROPRIATION*
(dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
	$3,000.0	Recurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Severance Tax Revenue	See Fiscal Implications	See Fiscal Implications	See Fiscal Implications	See Fiscal Implications	See Fiscal Implications	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
NMED	No fiscal impact	Up to $3,150.0	Up to $3,150.0	Up to $6,300.0	Recurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
Public Regulation Commission (PRC)
Energy, Minerals and Natural Resources Department (EMNRD)
New Mexico Environment Department (NMED)
New Mexico Department of Transportation (NMDOT)

Agency Declined to Respond
Office of the State Engineer (OSE)

SUMMARY

Synopsis of SCC Amendment to Senate Bill 4

The Senate Conservation Committee amendment to Senate Bill 4 adds additional authority to the Environmental Improvement Board (EIB) and adds methane to greenhouse emission reduction rules set by the EIB.

The amendment also stipulates EIB shall at least once every five years reevaluate the effectiveness of the rules it has adopted.

Synopsis of Senate Bill 4

Senate Bill 4 (SB4) proposes significant statutory changes with the aim of reducing greenhouse gas emissions.

- The bill defines green gas emissions as including emissions from:
  - o Electricity generation consumed in New Mexico, including imports;
  - o Transportation fuels and heating fuels;
  - o Buildings and structures;
  - o Residential, commercial, and industrial waste;
  - o Manufacturing, extraction and processing of raw materials;
  - o Agricultural and forest products;
  - o Oil and gas exploration, production, storage, distribution, and transportation.
- Statewide greenhouse gas emissions reductions, based on 2005 emission levels, would be set at:
  - o By 2030, a 45 percent reduction
  - o By 2040, a 75 percent reduction
  - o By 2050, a 100 percent reduction
- Monitoring and reporting requirements include:
  - o An annual greenhouse gas inventory (by sector) and progress reports beginning July 1, 2026;
  - o 10-year assessments starting in 2031.
- The Environmental Improvement Board (EIB) would be responsible for:
  - o Regulating greenhouse gas emissions to meet statewide limits,
  - o Establishing monitoring requirements by 2026,
  - o Creating production rules for sectors other than oil and gas by January 1, 2028 ,
  - o Establishing methane reduction limits for the oil and gas sector as follows:
    - By 2030, methane intensity ≤ 0.3%,
    - By 2040, methane intensity ≤ 0.2%,
    - By 2050, methane intensity ≤ 0.1%.
- The bill establishes the following climate equity principles
  - o State agencies are required to prioritize reductions in overburdened communities o Incorporate tribal consultation, and address adverse health and environmental impacts

Senate Bill 4 appropriates $3 million from the general fund to the Environment Department for the purpose of administering the greenhouse gas emissions reduction program.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

The appropriation of $3 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY26 shall not revert to the general fund.

Proposed methane emission reductions created by Senate Bill 4 have the potential to impact the state's revenue from the severance tax, royalties, and bonus payment revenues utilized by multiple areas of the state.

Specifically, the delegation of authority to the department in determining regulations, fees, and the like make it difficult to assess how emission reductions will be achieved and at what cost. Methane emissions from the oil and gas industry have been declining particularly in newer wells with improved emissions technology, but older, less productive wells are less economical to invest in to achieve emission reduction targets. To the extent older wells are shut off to meet emissions targets, revenue losses will accumulate from the lost production value. Furthermore, it is unclear if all wells will be able to achieve the reductions necessary to meet the aggregate reduction goals and what actions could be taken to further force compliance.

Compliance could result in the loss of future drilling and production, further reducing state revenues from the industry. The delegation of regulatory authority combined with limited direction on implementation prevents this analysis from including a revenue estimate, which could have significant revenue losses to the general fund, severance tax permanent fund, the early childhood education and care fund, state capital outlay, gross receipts taxes, personal income taxes, and more. However, additional compliance could result in some offsetting positive revenues collections from new methane captured and sold as a result of compliance.

Similarly, it is unclear how the emissions reductions across other industries would be achieved, as required in this bill. Depending on how emission reductions are achieved and the regulations used to achieve such reductions, significant economic costs could be incurred by the New Mexico economy. Because the regulations are delegated and the department did not provide direction on implementation, costs could be minimal to significant. Should costs become too high, economic activity could be lost in avoided business or consumer demand, curbing supply and reducing overall economic activity. In such a scenario, lost wages and consumption would result in lost personal income taxes and gross receipts taxes presenting possible revenue losses to the state.

Senate Bill 4 significantly increases the reporting and regulating role of the Environment Department (NMED). The bill's requirements for reducing greenhouse gas emissions by a rolling scale and the enforcement of those emissions targets resting with NMED has the potential of requiring significant increases in the staffing and recurring budget of NMED.

NMED analysis noted implementation of SB4 could require the department to increase its personnel by 10 and funding by up to $1.7 million. SB4 gives the Environmental Improvement Board (EIB) the ability to create a fee structure that could supplement some of the implementation costs, a funding structure consistent with some of NMED's programs, such as the Air Quality Bureau (AQB). Efforts to increase permit fees related to AQB operations have gone before the EIB before, though they did not pass. NMED signaled its intention to continue to petition the EIB to increase permit fees related to air quality, though whether those will pass is not certain.

Increased staff could potentially also be needed at the other agencies tasked with consulting with NMED on creating a greenhouse gas inventory and progress report every year. The report, which would require NMED to consult with the Energy, Minerals and Natural Resource Department, the Department of Transportation, the Public Regulation Commission (PRC), and "other appropriate federal, state, local, and tribal entities," to publish a report that contains, at a minimum:

- A projection of whether the state will meet the statewide greenhouse gas emissions limits;
- A list of actions that the state is taking, or is planning to take, to meet the statewide greenhouse gas emissions limits;
- An identification of the actual or expected implementation date of each action;
- A quantification and analysis of the projected greenhouse gas emissions reductions that each action will achieve;
- A quantification and analysis, by sector, of all gaps between the projected greenhouse gas emissions reductions and the statewide greenhouse gas emissions limits;
- Recommendations for legislation that would help achieve additional greenhouse gas emissions reductions sufficient to address all such gaps, including an estimate of the emissions reductions;
- And a description of the adverse effects on overburdened communities of state programs to reduce greenhouse gas emissions and a description of the actions each state agency has taken to prevent or minimize those adverse effects.

SB4 also calls for the Energy, Minerals and Natural Resources Department, in consultation with NMED, to create a greenhouse gas sector report that would map out by greenhouse gas sector what actions NMED and EMNRD believe are necessary to achieve the greenhouse gas emission limits set by the bill.

Reporting of this complexity and nature, even spread out among the four agencies or possibly more, would require indeterminate budget increases to accommodate. Further, Senate Bill 4's aim to increase NMED and EMNRD's regulatory role, of curbing greenhouse gas emissions statewide, with exceptions for oil and gas production, by 45 percent in 2030, would require significant expansion of NMED to be able to implement the bill. The state would have to cut greenhouse gas emissions by an average of 9 percent each year to reach the 45 percent emission limit by 2030, cut by 5 percent each year to reach the 2040 goal of 75 percent reduction, and 4 percent each year to reach the 2050 goal of 100 percent reduction.

SIGNIFICANT ISSUES

New Mexico currently has the Climate Change Task Force chaired by representatives of the Environment and Energy, Minerals, and Natural Resources departments. Other agencies in the task force are the Department of Transportation, the Economic Development Department, the State Land Office, and the Workforce Solutions Department. The task force was created by executive order in 2019, with the executive order including greenhouse and oil production emissions targets and directives that mimic or closely resemble the targets and directives of Senate Bill 4. Both the executive order and the bill call for 45 percent emissions reductions by 2030 compared to 2005 levels, require agencies to track the impacts of climate change and coalesce these practices and findings into a report (the executive order calls for a New Mexico Climate Strategy document while the bill calls for a greenhouse gas inventory and progress report that mirrors the goals of the Climate Strategy document), and calls for state agencies to evaluate and regulatory strategies that will works towards reducing greenhouse gas pollution/emissions.

The executive order also calls on EMNRD and NMED to develop and enforce a regulatory framework that will reduce oil and gas methane emissions, mirroring Senate Bill 4's call to create separate oil and gas emissions reduction targets.

EMNRD analysis notes, while implementation of the executive order has resulted in reductions in emissions in the state, the most recent *New Mexico Greenhouse Gas Emissions Inventory and Forecast* published by NMED in 2024 found the state will not meet its emissions targets.

The link between oil and gas production and negative health outcomes is well established. Two peer-reviewed studies in California found an association between oil and gas development and self-reported and physician-diagnosed asthma, reduced lung function, and self-reported acute respiratory symptoms (e.g., recent wheezing). Six studies in other oil and gas regions (Pennsylvania and Texas) reported an association between oil and gas development and asthma exacerbations, asthma hospitalizations, and respiratory symptoms.

Agency analysis from the Public Regulation Commission notes Senate Bill 4 requirement to monitor greenhouse gas emissions, in concert with other agencies, falls outside its scope of responsibilities. PRC also notes, due to the agency not currently tracking greenhouse gas emissions, it is not possible to analyze whether the emissions targets the bill sets out are achievable.

Passage of SB4 will significantly increase the regulatory expectations of NMED. Without providing increased funding, or outlining a specific fee structure to supplement funding, SB4 could increase the role and expectation of the department while not increasing the department's ability to enforce or implement its new authority.

A key aspect of Senate Bill 4 stipulates by January 1, 2028 the Environmental Improvement Board:

> Shall adopt rules for the reduction of greenhouse gas emissions from sectors other than oil and gas exploration and production operations sufficient to meet the statewide greenhouse gas emissions limits….and adopt annual greenhouse gas limits considering those annual limits proposed by the department.

The bill also creates different emission targets related to oil and gas production, with the initial rules for all other sectors except oil and gas adopted on January 1, 2028, and for oil and gas on July 1, 2028. The specific carving out of oil and gas production emissions is further discussed, with the bill requiring EIB to:

> Promulgate by July 1, 2028 a rule that the board determines shall achieve the necessary methane emission reductions from oil and gas exploration and production operations. The

rule to achieve greenhouse gas emissions reductions from the oil and gas industry must ensure reductions that are at least equivalent to:

(1) by 2030, a level of emissions of no more than three-tenths of one percent methane emissions intensity;
(2) by 2040, a level of emissions of no more than two-tenths of one percent methane emissions intensity; and
(3) by 2050, a level of emissions of no more than one-tenth of one percent methane emissions intensity.

Reducing oil and gas methane emissions intensity to 3/10th of 1 percent in 2030, beginning on July 1, 2028, would require the oil and gas industry to reduce methane emissions by, on average, 49.985 percent per year. Top producers in the state have made nonbinding agreements and announcements of an intent to curb methane emissions intensity to no more than two-tenths of 1 percent methane emissions intensity. Any reductions in emissions from self-compliance is a reduced regulatory burden for industry at large. Creating a compressed timeline for emissions targets has the potential of setting up targets for failure.

Agency analysis from NMED notes the Air Quality Bureau (AQB) does not have jurisdiction in Bernalillo County, which could create implementation issues with Senate Bill 4. Specifically, regulation and monitoring of Bernalillo County's air quality is under the authority of the Bernalillo County Air Quality Control Board. Senate Bill 4 does, however, in section 5 of the bill discuss this bifurcation of air quality regulation, leaving "the environmental improvement board and local board shall regulate greenhouse gas emissions to meet the statewide greenhouse gas emissions limits," leaving authority to AQB and the Bernalillo County Air Quality Control Board to jointly implement Senate Bill 4's emissions targets.

NMED analysis also discusses Senate Bill 4's definition of "overburdened community," noting that terms and definitions in the bill could create ambiguities that could hamper implementation. NMED also expresses concerns on the dates for EIB creating new rules being too compressed, given the size of the task, and expresses concern the department might not be able to implement new data analysis and reporting requirements on time due to the complexity of inventorying all of the state's greenhouse gas emissions.

Regarding the emissions reduction goals proposed by Senate Bill 4, NMED expresses concern the 2030 and 2040 emissions reductions targets of 45 percent and 75 percent, respectively, and the requirement that the targets be met through only "direct greenhouse gas emissions reductions" could disproportionately affect overburdened communities and could force businesses to relocate from the state.

PERFORMANCE IMPLICATIONS

The proposed schedule for EIB rule adoption, on top of existing rule-making responsibilities at NMED, in addition to the expanded work and research that EIB would need to perform to implement the rules, would require NMED to move additional staff to EIB. Due to these factors, NMED raises concerns that the responsibilities under SB4 could impede agency operations.

TECHNICAL ISSUES

NMED notes that on page 5, line 17, the bill uses "achieved solely through direct greenhouse gas emissions," but does not define what "direct" means. Defining direct could clear up ambiguity the bill could be creating.

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