Supplemental Severance Tax Bonding Capacity

Public School Capital Outlay Oversight Task Force
August 25, 2023

New Mexico Department *of* Finance and Administration

Overview of Severance Tax Bonding Program

Public School capital projects are funded with proceeds from Supplemental Severance Tax Bonds and Notes.

- Primary source is short-term, taxable Severance Tax Notes ("Sponge Bonds")
- Long-term, tax-exempt Supplemental STBs have been used when available cash is low and will not meet capital need, as certified by the PSCOC

The Board of Finance typically estimates bonding capacity annually

- Preliminary estimates are produced in August and updated in December
- Dependent on statutory limits and 10-year revenue projections
  - Statutory limits are conservative and limit debt service to the lesser of the previous year's revenues and the current year's revenue estimate, as well as limiting to only a certain percentage of revenues.
  - Revenue estimates are from the Consensus Revenue Estimating Group and the DFA Chief Economist.

Overview of Severance Tax Bonding Program

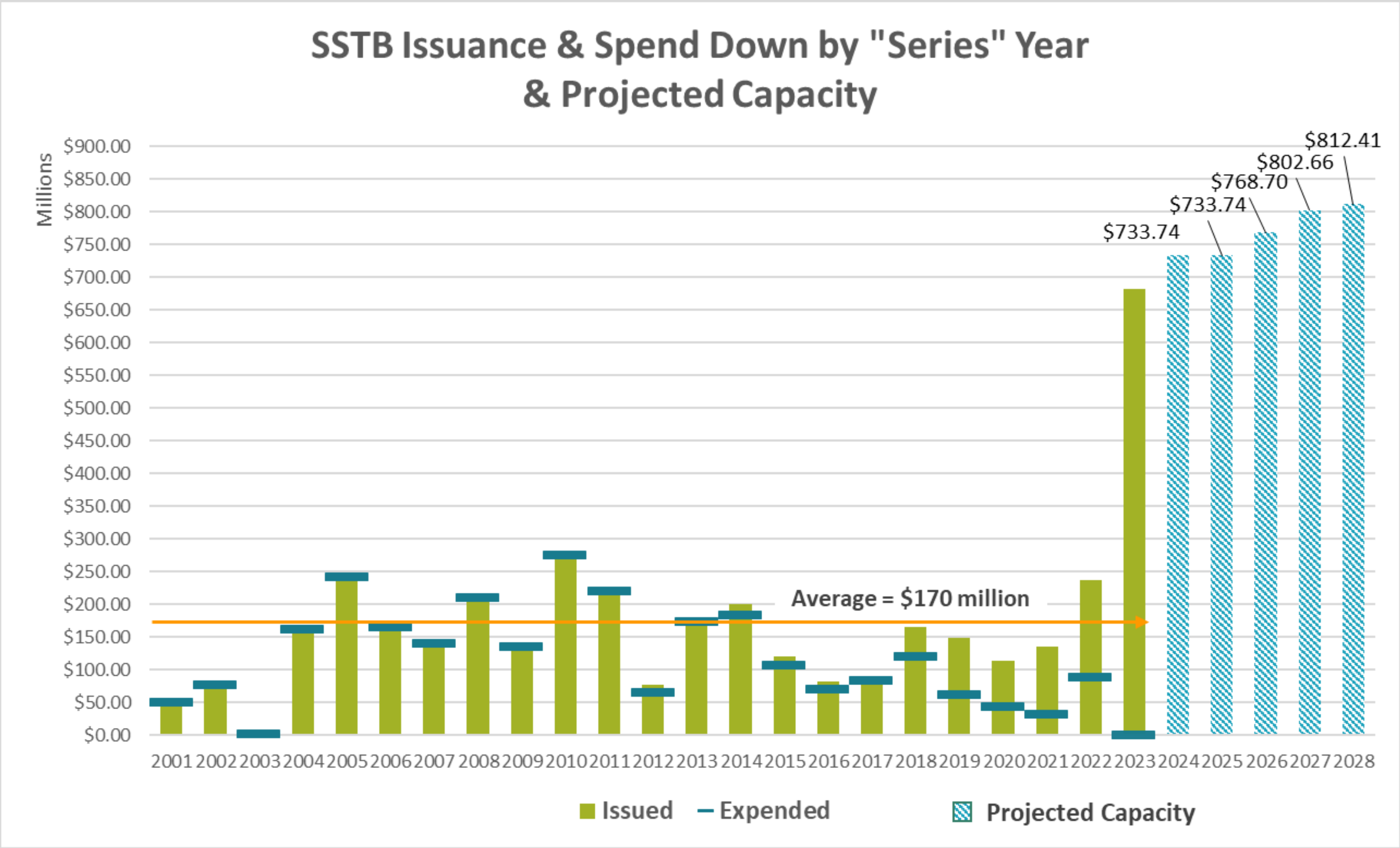
The amount of bonds/notes issued is based on the lesser of statutory capacity <u>or</u> cash available.

The final amount of Supplemental Severance Tax Notes issued is determined at the time of issuance.

- BOF determines the amount of cash available for issuance and compares that to bonding capacity established using statutory limits.

Supplemental Severance Tax Notes are typically issued twice a year—in June and December.

Balances in the Severance Tax Bonding Fund, after notes are issued, is statutorily required to be transferred to the Severance Tax Permanent Fund.



Historical Note Issues & Expenditures

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Key Points on Historical Funding & Spenddown

Average issuance totals $147.9 million per “series” year from 2001 through 2022.

Issuance skyrocketed (188%) in FY2023 with the increase in oil and gas revenues.

About 95% of funding prior to 2019 has been expended. 100% of funding expended prior to 2012.

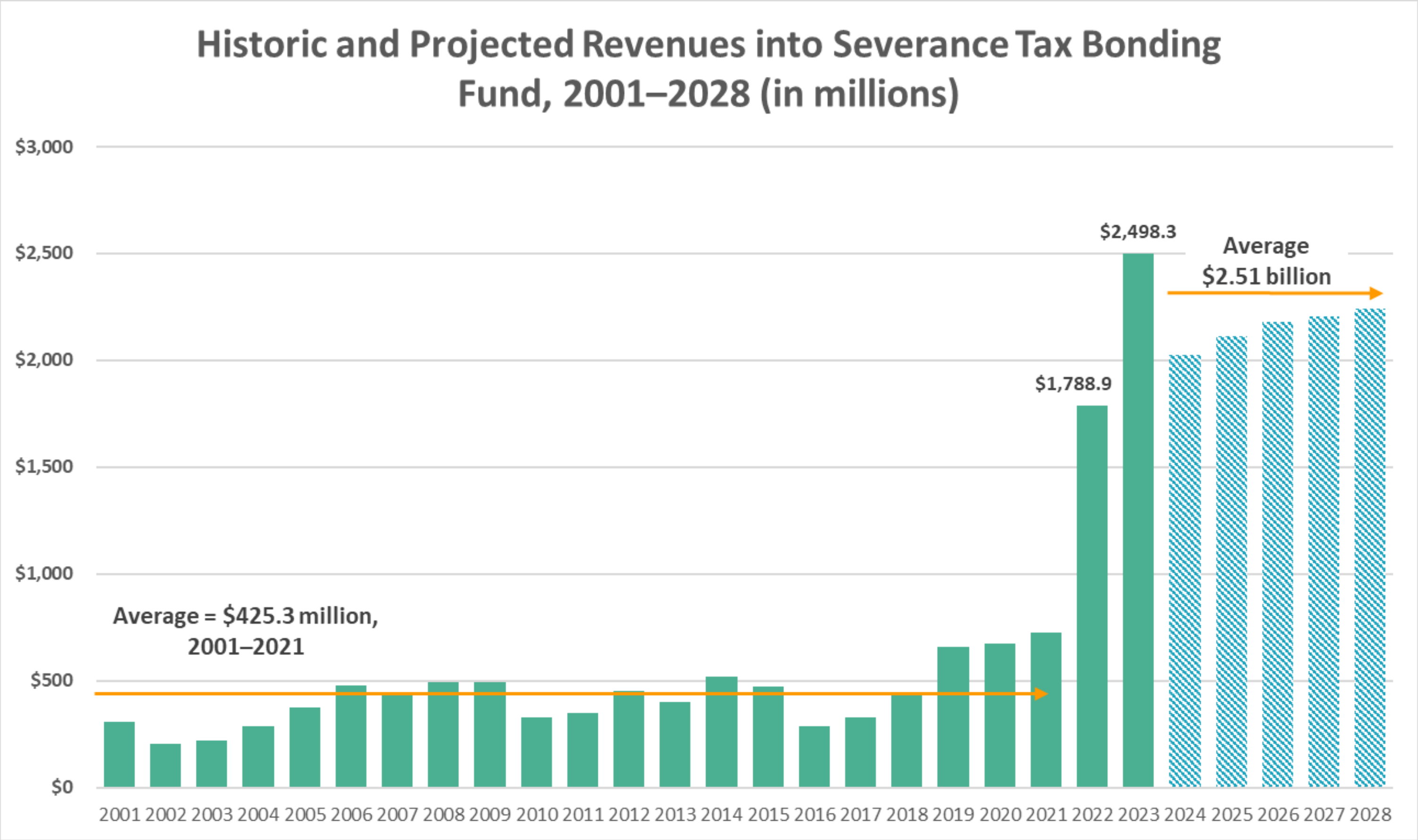
About 35% of funding between 2019 and 2022 has been expended.

Key Points on Projected Capacity

Capacity is projected to remain between $700 and $800m annually between 2024 and 2028.

Under current statutory parameters, capacity is significantly higher than historical average as severance tax revenues remain extremely high.

What's Driving the Increase in Bonding Capacity?



Thank You

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