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FISCAL IMPACT REPORT

ORIGINAL DATE 2/16/19
LAST UPDATED 2/20/19 **HB** _____

SPONSOR SFC

SHORT TITLE Certain Bonding Fund Money to Permanent Fund **SB** 535/SFCS/aSFI#1

ANALYST Armstrong

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21		
\$0.0	\$10,302.2-\$23,690.0	\$22,179.5-\$24,900.0	Recurring	Severance Tax Permanent Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to SB280

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Attorney General (NMAG)
 Department of Finance and Administration (DFA)
 Public School Facilities Authority (PSFA)

SUMMARY

Synopsis of SFI#1 Amendment

The Senate floor amendment provides that the annual transfer of \$23.69 million from the severance tax bonding fund to the severance tax permanent fund (STPF) shall occur on “December 31” rather than “by December 29.” This aligns with the technical issue raised by Board of Finance (BOF) analysis.

Synopsis of Original Bill

The Senate Finance Committee Substitute for Senate Bill 535 amends Section 7-27-10 NMSA 1978, to provide that the Board of Finance (BOF) shall not issue and sell more than \$181.8 million of supplemental severance tax bonds (SSTB) in FY19. The bill also amends Section 7-27-10.1 NMSA 1978, to require that by December 29 of each year from 2019 through 2028, BOF shall transfer \$23.69 million from the severance tax bonding fund to the STPF. The bill protects current bondholders while providing increased distributions from the severance tax

bonding fund to the STPF from FY20 through FY29 and capping any FY19 SSTB issuance at the capacity estimated by the Board of Finance in January 2019.

FISCAL IMPLICATIONS

SB535/SFCS directs \$23.69 million to the STPF annually from FY20 through FY29. This amount is an estimate of the debt service that would be needed if the Legislature authorized, and BOF issued, the full FY19 severance tax bond (STB) capacity. Because the introduced capital outlay bill (Senate Bill 280) does not include STB authorizations, SB535/SFCS would direct the estimated debt service amount to the STPF.

If the Legislature does not authorize STBs for FY19 (as proposed by SB280), SB535/SFCS ensures the funds would be deposited in the STPF rather than increasing SSTB capacity by limiting any SSTB issuance to the estimated capacity of \$181.8 million.

Rather than being used for debt service, SB535/SFCS directs the severance tax revenue to the STPF over a 10-year period, increasing the size of the fund and thereby increasing earnings and transfers to the general fund in the long-term. LFC economists estimate this would increase the severance tax permanent fund by \$281.2 million over 10 years, which would in turn generate an additional \$35.1 million of general fund revenue over the same period.

Summary - No Senior STB Capacity Issued in 2019 (\$ millions)						
Net Senior STB Capacity: \$236.9			STPF Annual Impact: \$23.69			
	STPF - Fund Size			Distribution to General Fund		
	With STB	Without STB	Difference	With STB	Without STB	Difference
FY19	\$5,164.1	\$5,164.1	\$0.0	\$220.6	\$220.6	\$0.0
FY20	\$5,329.4	\$5,353.0	\$23.7	\$225.1	\$225.1	\$0.0
FY21	\$5,489.0	\$5,537.6	\$48.6	\$229.5	\$229.5	\$0.0
FY22	\$5,645.5	\$5,720.0	\$74.5	\$237.0	\$237.2	\$0.2
FY23	\$5,787.9	\$5,889.2	\$101.2	\$244.7	\$245.3	\$0.7
FY24	\$5,864.6	\$5,993.2	\$128.6	\$249.7	\$251.1	\$1.4
FY25	\$5,938.1	\$6,094.6	\$156.5	\$257.7	\$260.0	\$2.3
FY26	\$6,009.6	\$6,194.2	\$184.6	\$264.3	\$267.8	\$3.5
FY27	\$6,079.6	\$6,292.7	\$213.0	\$270.0	\$274.8	\$4.8
FY28	\$6,149.1	\$6,390.8	\$241.7	\$274.9	\$281.0	\$6.1
FY29	\$6,218.6	\$6,489.2	\$270.7	\$279.0	\$286.4	\$7.4
FY30	\$6,431.4	\$6,712.6	\$281.2	\$282.4	\$291.1	\$8.7

Cumulative Difference

By FY	General Fund	STPF
FY24	\$2.3	\$101.2
FY30	\$35.1	\$281.2

Unlike LFC economists, BOF analyzed the bill under the assumption that additional STB authorizations are made in FY19. While the BOF analysis estimates the minimum distribution to the STPF would increase STPF revenues from FY20 through FY29, the total amount of \$191.3 million differs from LFC’s estimate. If the Legislature does authorize STB issuances during the 2019 session, SB535/SFCS would reduce bonding capacity from FY19 through FY29 based on

BOF analysis; however, there is no introduced legislation that would authorize an STB issuance.

SIGNIFICANT ISSUES

Historically, severance tax revenues have been extremely volatile. While annual transfers to the STPF from the severance tax bonding fund averaged \$42.9 million between 2001 and 2018, the distributions ranged from a low of just \$38.00 (2017) to more than \$124.6 million (2014). In nine of the last 18 years, the available transfer amounts to the STPF was equal to or higher than the proposed distribution.

RELATIONSHIP

Senate Bill 280, the introduced capital outlay bill, does not authorize any senior STB issuances from FY19 capacity, working in tandem with SB535/SFCS to provide increased STPF revenues.

TECHNICAL ISSUES

BOF recommends an amendment to the date of the transfer to the STPF called for in SB535/SFCS. This should occur on December 31, the same date of the normal December transfer, but the bill currently provides for the transfer on December 29. Debt service payments for outstanding STBs are due annually on July 1 and January 1. It is necessary that funds are available for debt service payments on existing debt.

JA/al/sb