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# FISCAL IMPACT REPORT

| | | | |
|---|---|---|---|
| | | **LAST UPDATED** | 3/7/2025 |
| **SPONSOR** | Wood/Muñoz/Sharer/Gallegos | **ORIGINAL DATE** | 3/4/2025 |
| **SHORT TITLE** | Severance Tax Bonding Capacity Allocations | **BILL NUMBER** | Senate Bill 514 |
| | | **ANALYST** | Carswell |

**REVENUE***
**(dollars in thousands)**

| Type | FY25 | FY26 | FY27 | FY28 | FY29 | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|---|---|---|
| STB Capital Outlay for State Agencies and Higher Education | | Up to ($56,700.0) | Up to ($51,400.0) | Up to ($46,100.0) | Up to ($37,400.0) | Recurring | Capital Program Fund |
| STB Capital Outlay for Local Projects | | Up to $56,700.0 | Up to $51,400.0 | Up to $46,100.0 | Up to $37,400.0 | Recurring | Various |

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

Relates to House Bills 450, 330, and Senate Bill 374

### Sources of Information

LFC Files

Agency Analysis was Solicited but Not Received From
Department of Finance and Administration (DFA)

## SUMMARY

### Synopsis of Senate Bill 514

Senate Bill 514 (SB514) amends the Severance Tax Bonding Act to require the severance tax bonding capacity available for new projects to annually be divided equally among the House, Senate, and the governor, with the House and Senate portions divided equally among the chambers' members. The bill requires the governor's share to be committed to the acquisition or improvement of state assets and to capital projects of statewide or regional significance.

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

SB514 appears intended to codify the practice of dividing some capital funds between the House, Senate, and governor. However, the bill's approach to allocating bonding capacity in one-third portions departs from current practice in one important respect, with the possible effect of reducing overall capital outlay appropriations for state-owned assets.

Over the last three years, an average of roughly 43 percent of general fund and severance tax bond spending for capital outlay has been dedicated to what are referred to as "statewide projects." Statewide projects represent investments in state-owned assets and infrastructure and are typically requested by state agencies and higher education institutions. The requests undergo a formal vetting process in the summer and fall preceding the legislative session, with funding recommendations adopted by the Legislative Finance Committee in December.

The other roughly 57 percent of annual spending capacity—as opposed to the total capacity—has then been divided between the House, Senate and governor, with the House and Senate portions divided equally among the chambers' members. In some years, the governor has received more than one-third of this overall amount. The shares allocated to the House, Senate, and governor are appropriated primarily for the benefit of municipal and county governments, tribes, public schools, auxiliary functions of higher education institutions, and political subdivisions of the state.

SB514 would apply the one-third/one-third/one-third approach to overall bonding capacity rather than to the roughly 57 of total capacity recently reserved for local projects. The one-third portion allocated to the governor would be reserved for investment in state-owned assets or for capital projects of statewide or regional significance, including presumably those owned by non-state entities.

For the last several years, capital outlay has been funded with general fund rather than severance tax bonds due to general fund surpluses. Historically, however, severance tax bonds were the primary source of revenue for the capital outlay program. In the future, if bonds were again the only source of funding, SB514 could thus decrease available funding for state-owned assets from an estimated 43 percent of overall capacity to 33 percent and proportionally increase available funding for local projects. The state is already contributing less than half its annual capital outlay dollars to the assets and infrastructure it is directly responsible for building and maintaining, while making a policy choice to direct more funding to assets not under its ownership or control. SB514 appears likely to further strain funding for state-owned assets while further subsidizing local entities. Notably, more than 20 percent of bonding capacity is already earmarked for funds that support certain types of non-state projects, including drinking water systems, tribal infrastructure, projects in colonias communities, and housing. House Bill 330, which is currently under consideration by the Legislature, would earmark an additional 4.2 percent of bonding capacity for acequias, land grant, and tribal projects, further depleting funds available for state assets.

This fiscal analysis assumes this decrease in revenue from severance tax bonds would accrue beginning next session to the capital program fund, the fund to which most appropriations for state agency projects are made. The decreases could in reality be spread across some other funds and higher education institutions, however. The estimates are based on the Board of Finance's most recent bonding capacity estimate, which extends through FY29. The estimate is attached.

The potential negative impact to revenue available for state projects could be mitigated with general fund investments in state-owned assets or with appropriations from the capital development and reserve fund. This fund was created by the Legislature in 2024 to support cash-financing for small capital projects and to diversify revenues dedicated to the capital program. The general obligation bond capital program, which primarily benefits higher education institutions on a bi-annual basis, would not be impacted by SB514.

## SIGNIFICANT ISSUES

SB514 could prompt changes to the process of funding state-owned capital projects. Currently, requests for capital outlay from state agencies and higher education institutions are vetted by both legislative and executive staff and the Legislature develops its own budget recommendation for these projects. The Legislature retains ultimate authority over appropriations for these projects and the statewide capital outlay recommendation adopted by the Legislative Finance Committee is largely retained in the final capital appropriations bill. The Legislature exerts no oversight of the projects funded through the governor's discretionary allocations, however. If that practice were to continue after SB514 were enacted, the Legislature could end up delegating much of its current role in directing capital investment in state-owned assets to the governor and may have less ability to balance these needs against demands from local governments for capital outlay. This issue could be negated through ongoing general fund or other investments in state-owned assets. However, it would have to be determined how the process of allocating those funds would interact with allocation of bonding funds outlined in SB514.

Additionally, local capital projects funded by the governor frequently receive larger appropriations than those funded by House and Senate members because the governor has a much larger pot of money to distribute as an individual than House and Senate members. It could become more difficult to direct large amounts to local projects from the governor's share if it were the primary source of funding for state-owned projects.

The one-third/one-third/one-third approach to allocating capital dollars contributes to the chronic problem of piecemeal funding in the state's capital program and the increasing backlog of partially funded local projects. Codifying the practice makes it likely this problem will continue far into the future absent additional action from the Legislature to implement a vetting system for requests and criteria projects must meet prior to funding. Demand for capital dollars far exceeds available funding. More than $3.5 billion in local project requests were submitted in the 2024 session for consideration by legislators and the governor, with only $525 million available for appropriation. Each individual legislator, meanwhile, had between $2.5 million and $4 million to allocate, and dozens or even hundreds of requests. As a result, legislators are often only able to contribute a fraction of project costs. About 45 percent of projects in the 2024 capital bill received 50 percent or less of the funding requested.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related to House Bill 450, the 2025 Capital Outlay Appropriations Bill.

Related to House Bill 330, which would earmark 2.2 percent of annual senior severance tax bond capacity for acequias and land grants and add an additional 2 percent to the existing 4.5 percent earmark for the tribal infrastructure fund.

Related to Senate Bill 374, which duplicates House Bill 330 but has not been amended as House Bill 330 was to include an additional 2 percent earmark for tribal projects.

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Attachments:

1. Sources and Uses of Bonding Capacity Available for Authorization and Severance Tax Permanent Fund Transfer

## Sources and Uses of Bonding Capacity Available for Authorization and Severance Tax Permanent Fund Transfer (in millions)
## December 2024

| Sources of Funds | FY25 | FY26 | FY27 | FY28 | FY29 | 5-Year |
|---|---|---|---|---|---|---|
| **General Obligation Bonds** | | **$365.2** | | **$365.2** | | **$730.4** |
| **Senior STBs** | **$1,114.8** | **$1,125.8** | **$1,166.2** | **$1,213.4** | **$1,223.4** | **$5,843.5** |
| Severance Tax Bonds Issued[1] | $385.0 | $385.0 | $385.0 | $385.0 | $385.0 | $1,925.0 |
| Severance Tax Notes | $729.8 | $740.8 | $781.2 | $828.4 | $838.4 | $3,918.5 |
| **Supplemental STBs** | **$751.0** | **$751.0** | **$814.7** | **$877.3** | **$910.4** | **$4,104.4** |
| Supplemental Severance Tax Bonds | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Supplemental Severance Tax Notes | $751.0 | $751.0 | $814.7 | $877.3 | $910.4 | $4,104.4 |
| **TOTAL Sources of STB Funds** | **$1,865.8** | **$1,876.8** | **$1,980.8** | **$2,090.7** | **$2,133.8** | **$9,947.9** |

| Uses of Funds | FY25 | FY26 | FY27 | FY28 | FY29 | 5-Year |
|---|---|---|---|---|---|---|
| **General Obligation Bonds** | | **$365.2** | | **$365.2** | | **$730.4** |
| **Senior Severance Tax Bonds** | **$1,114.8** | **$1,125.8** | **$1,166.2** | **$1,213.4** | **$1,223.4** | **$5,843.5** |
| Authorized but Unissued STB Projects | $350.0 | $0.0 | $0.0 | $0.0 | $0.0 | $350.0 |
| Earmark Programs | | | | | | |
| 9.0% of Senior STB for Water Projects | $161.1 | $162.1 | $165.8 | $170.0 | $170.9 | $830.0 |
| 4.5% of Senior STB for Colonias Projects | $80.6 | $81.1 | $82.9 | $85.0 | $85.5 | $415.0 |
| 4.5% of Senior STB for Tribal Projects | $80.6 | $81.1 | $82.9 | $85.0 | $85.5 | $415.0 |
| 2.5% Housing Trust Fund Projects | $44.8 | $45.0 | $46.0 | $47.2 | $47.5 | $230.5 |
| Capital Development Reserve & Program Funds[2] | | | | | | |
| Capital Dev. Program Fund Projects | $23.8 | $26.0 | $29.6 | $38.3 | $51.4 | $169.1 |
| Capital Dev. & Reserve Fund Distribution | $81.6 | $163.3 | $244.9 | $326.6 | $408.2 | $1,224.6 |
| New Senior STB Statewide Capital Projects | $292.3 | $567.2 | $514.0 | $461.2 | $374.5 | $2,209.3 |
| **PSCOC Public School Capital** | **$751.0** | **$751.0** | **$814.7** | **$877.3** | **$910.4** | **$4,104.4** |
| **TOTAL STB Uses of Funds** | **$1,865.8** | **$1,876.8** | **$1,980.8** | **$2,090.7** | **$2,133.8** | **$9,947.9** |

### Estimated Transfer to Severance Tax Permanent Fund

| | FY25 | FY26 | FY27 | FY28 | FY29 | 5-Year |
|---|---|---|---|---|---|---|
| **Severance Tax Permanent Fund Transfer** | **$569.3** | **$510.4** | **$538.6** | **$483.6** | **$467.9** | **$2,569.8** |

[1] Statutory capacity is estimated to be $1,060.7 million annually. Per HB 253 (2024), the State Board of Finance shall issue an amount that will maintain stable debt metrics, including debt per capita and debt as a percentage of personal income. The State Board of Finance has calculated the "capped" debt capacity to be $385 million annually.

[2] Per HB 253 (2024), SBOF shall distribute any cash savings resulting from reduced long-term bond issuance (also known as debt service savings) annually to the newly established Capital Development and Reserve Fund. Based on statutory capacity of $1,060.7 million and capped capacity of $385 million, average annual debt service savings are estimated to total $81.64 million, which is applied for 10 years, compounding each year in which debt service savings are realized. This analysis assumes savings will be realized each year. Additionally, on January 1 of each year, a distribution from the Capital Development Reserve fund will be made to the Capital Development Program Fund for small project and design and engineering appropriation.