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## FISCAL IMPACT REPORT

SPONSOR SFC ORIGINAL DATE 5/24/17  
 LAST UPDATED 5/25/17 HB \_\_\_\_\_

SHORT TITLE Severance Tax Bond Project Changes SB 1/SFCS

ANALYST Kehoe/Armstrong

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
\$71,000.0		Non-recurring	Severance Tax Bond
\$10,400.0		Non-recurring	Severance Tax Bond (Water Project Fund De-earmark)
\$81,400.0		Non-recurring	Supplemental Severance Tax Bond
\$5,000.0		Non-recurring	Capitol Buildings Repair Fund
\$6,022.9	\$8,000.0	Non-recurring	Various Other State Funds Appropriated to the General Fund (See Fiscal Implications)

(Parentheses ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19		
\$92,422.9	\$8,000.0		Non-recurring	General Fund
\$81,400.0			Non-recurring	Public School Capital Outlay Fund
(\$10,400.0)			Non-recurring	Water Project Fund

(Parentheses ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files  
 LESC Files

**SUMMARY**

Synopsis of Bill

The Senate Finance Committee Substitute for Senate Bill 1 (SB1/SFCS) increases the general fund by \$100.4 million, including \$81.4 million in capital outlay “swaps” (Sections 1 and 2) and \$19 million in “sweeps” from various other state funds (Section 3). The \$81.4 million figure in the bill includes an estimated \$71 million in STB capacity and an additional \$10.4 million in capacity from suspending the STB distribution to the water project fund for 2017 (Section 4).

Section 1 appropriates supplemental severance tax bond (SSTB) proceeds to the general fund to restore prior year general fund capital outlay appropriations for capital projects whose expenditure periods ended on or before June 30, 2016. These SSTB proceeds are generally appropriated to the public school capital outlay fund (PSCOF) for public school capital projects. To hold school project funding harmless, Section 2 appropriates \$81.4 million in senior severance tax bond (STB) revenue, generally for statewide capital projects, to the PSCOF.

Section 5 amends Section 7-27-12 NMSA 1978 to allow the Board of Finance to issue supplemental STBs pursuant to Section 1.

Sections 6, 7, and 8 amend existing statute to allow for some of the transfers made in Section 3, specifically the transfers from the capitol buildings repair fund, the board of nursing fund, and the board of dental health care fund.

Section 9 provides for an emergency clause.

**FISCAL IMPLICATIONS**

The chart below demonstrates the impact of the bill:

<b>Special Session Capital Capacity</b> (dollars in millions)					
	<b>General Fund</b>	<b>Other State Funds</b>	<b>STB</b>	<b>STB Earmarks</b>	<b>PSCOF</b>
<b>Capacity FY17</b>			\$71.0	\$20.8	\$120.4
<b>Authorize issuance of SSTB and appropriate \$ to GF (Section 1)</b>	\$81.4				\$(81.4)
<b>CBRF swap to GF (Section 3)</b>	\$5.0	\$(5.0)			
<b>Suspend water project funds (Section 4)</b>			\$10.4	\$(10.4)	
<b>Appropriate STB to PSCOF (Section 2)</b>			\$(81.4)		\$81.4
<b>Transfer from other state funds (Section 3)</b>	\$14.0	\$(14.0)			
<b>Total</b>	<b>\$100.4</b>	<b>\$(19.0)</b>	<b>\$ -</b>	<b>\$10.4</b>	<b>\$120.4</b>

Prior to the regular 2017 legislative session, senior severance tax bonding capacity was estimated at \$153.4 million before deductions, including \$19.7 million for authorized but unissued bonds;

4.5 percent of capacity equal to \$5.2 million for deposit into the tribal infrastructure project fund; 4.5 percent of capacity equal to \$5.2 million for deposit into the colonias infrastructure project fund; 9 percent of capacity equal to \$10.4 million for deposit into the water project fund; and \$51 million of 2016 funded projects leaving \$61.9 of capacity.

Currently, the remaining capacity is estimated at \$71 million. Adding the \$10.4 million from suspending the water project fund earmark (Section 4) increases net capacity to \$81.4 million.

Section 1 transfers up to \$81.4 million of SSTB proceeds to the general fund for use by the Department of Finance and Administration (DFA) to restore prior year general fund capital outlay appropriations for capital project appropriations whose expenditure periods end on or before June 30, 2016.

Section 2 authorizes the use of up to \$81.4 million of STB capacity for public school capital projects generally funded with SSTB proceeds, offsetting the transfer allowed by Section 1.

Section 3 transfers slightly more than \$19 million to the general fund from various other state funds. The bill provides that the capitol buildings repair fund transfer is to restore allotments from general fund appropriations whose expenditure periods end on or before June 30, 2016, for purposes allowable for use of the capitol buildings repair fund.

Agency	Fund Name	Amount
Retiree Health Care Authority	Discount Prescription Drug Program Fund	\$16.9
General Services Department	Capitol Building Repair Fund	\$5,000.0
General Services Department	Public Liability Fund	\$1,000.0
General Services Department	Property Control Reserve Fund	\$808.0
General Services Department	Public Property Reserve Fund	\$1,000.0
General Services Department	Workers' Compensation Retention Fund	\$1,000.0
Regulation and Licensing Department	Pharmacy Fund	\$91.7
Regulation and Licensing Department	Board of Dental Health Care Fund	\$50.0
Regulation and Licensing Department	Construction Industries Publications Fund	\$43.2
Regulation and Licensing Department	Interior Design Board Fund	\$17.5
Office of Superintendent of Insurance	Insurance Examination Fund	\$1.4
Board of Nursing	Board of Nursing Fund	\$8.0
Environment Department	Radiologic Technology Fund	\$140.2
Environment Department	Solid Waste Facility Grant Fund	\$85.0
Environment Department	Voluntary Remediation Fund	\$30.0
Children, Youth and Families Department	Day-care Fund	\$500.0
Corrections Department	Community Corrections Fund	\$350.0
Public Education Department	Educator Certification Fund	\$250.0
Public Education Department	Teacher Professional Development	\$80.1
Public Education Department	Incentive For School Improvement	\$81.7
Public Education Department	Charter School Stimulus Fund	\$14.3
Public Education Department	Education Technology Fund	\$14.3
Public Education Department	Family Youth Fund	\$1.2
Higher Education Department	Program Development Enhancement Fund	\$139.9
Higher Education Department	Higher Education Endowment Fund	\$299.5
New Mexico Finance Authority	Public Project Revolving Fund GGRT Revenue	\$8,000.0
<b>Total</b>		<b>\$19,022.9</b>

## SIGNIFICANT ISSUES

SB1/SFCS increases the general fund by \$100.4 million with \$81.4 million in capital outlay “swaps” and \$19 million in other state fund “sweeps.” Based on the general fund financial summary released after the regular 2017 session and legislative proposals for restoring FY18 funding for the legislative branch and higher education institutions during the May 2017 special session, this bill would balance the state’s FY18 budget and restore general fund reserves to approximately 0.5 percent.

The Board of Finance estimates interest on \$71 million of long-term severance tax bonds, for 10 years at 2.29 percent, totaling approximately \$9.25 million. The cost of issuing \$71 million of SSTBs, short-term notes, is \$80 thousand, and the cost of issuing \$71 million of STBs is \$170 thousand.

Many of the transfers included in Section 3 were identified by Department of Finance and Administration (DFA) and Legislative Finance Committee (LFC) staff prior to and during the 2017 regular legislative session and included in Senate Bill 462 (SB462) which the governor vetoed. Differences from SB462 include decreasing the amount from the capitol buildings repair fund by \$1 million, and adding transfers from the public liability fund, public property reserve fund, workers’ compensation retention fund, day-care fund, community corrections fund educator certification fund, and higher education endowment fund. Relying on agency projected FY17 ending fund balances and the amounts recommended for FY18 operating budgets, LFC staff worked to identify fund balances available to transfer to the general fund that were not budgeted and would not impact agency operations.

The bill also transfers \$8 million from the New Mexico Finance Authority (NMFA) to the general fund in FY18. NMFA approved the language stating the transfer is from NMFA’s governmental gross receipts tax distribution that is not otherwise obligated.

Finally, this bill includes an emergency clause which is effective with a two-thirds vote in both the House of Representatives and the Senate. Without the emergency clause, and pursuant to the New Mexico Constitution, a bill does not take effect until 90 days after the governor signs it into law. The bill transfers up to \$92.4 million of SSTBs to the general fund in FY17, however, without the emergency clause, the bill’s effective date would be in FY18, likely rendering the appropriation ineffective. Changing the bill to appropriate the funds in FY18 would not correct this issue because Section 7-27-8 NMSA 1978 requires the state treasurer to transfer all money in the severance tax bonding fund, other than amounts needed to make the next two semiannual bond payments, to the severance tax permanent fund on each June 30 and December 31. Both houses passed the bill with sufficient votes to retain the emergency clause if the governor signs it into law.

LMK/JA/al