

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 01/27/12

SPONSOR Larranaga and Beffort **LAST UPDATED** _____ **HB** 50

SHORT TITLE Reduce Severance Tax Fund Intercepts **SB** _____

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY12	FY13	FY14		
	\$25,000.0	\$28,900.0	Recurring	Severance Tax Perm Fund
	(\$51,700.0)	(\$52,100.0)	Recurring	Severance Tax Bond Capacity

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration (DFA)
New Mexico Environment Department (NMED)

SUMMARY

Synopsis of Bill

House Bill 50 makes changes to the Severance Tax Bond (STB) program that will result in increased severance tax contributions to the Severance Tax Permanent Fund and reduced capacity available for the senior STB program, including projects authorized by the Legislature, and earmarks for water trust board, colonias infrastructure, and tribal infrastructure projects.

Under current law, senior severance tax bonds may be issued by the Board of Finance to the point where debt service can be paid with up to 50 percent of revenues into the severance tax bonding fund in the previous fiscal year. Of that senior capacity, 80 percent is available for projects authorized annually by the Legislature, 10 percent is earmarked for water trust board projects, and 5 percent is earmarked to both colonias infrastructure and tribal infrastructure projects.

The bill would reduce the statutory capacity for all senior STBs from 50 to 45 percent of prior fiscal year revenues. The amount earmarked for water trust board projects would increase from 10 to 11.11 percent of that smaller amount to reduce the negative impact on water trust board

projects. The amount earmarked for colonias and tribal infrastructure projects would decrease from 5 percent of 50 percent of prior year revenues, down to 2.5 percent of 45 percent of prior year revenues - resulting in a decrease of those earmarks by more than half of their nominal amount.

The amount of funding available for the supplemental severance tax bond (SSTB) program, which benefits public school facilities, would be unchanged as a result of this bill.

Effective Date: July 1, 2012. This would make the changes effective for calculation of Fiscal Year 2013 STB capacity which will likely be appropriated during the 2013 regular session.

FISCAL IMPLICATIONS

Based on the December 2011 consensus oil and gas forecast, DFA prepared the following tables to illustrate the amount of senior STB capacity available for each type of senior project over the next five years under current law and under the changes proposed in House Bill 50. Estimated transfers to the Severance Tax Permanent Fund are also included at the bottom of each table.

Current Law: Core Bonding Programs						
Sources and Uses of Funds						
Bonding Capacity Available for Authorization						
December 2011 Estimate						
	FY12	FY13	FY14	FY15	FY16	Five-Year
Sources of Funds (millions)						
General Obligation Bonds	298.9	-	181.9	-	207.4	688.2
Severance Tax Bonds	187.7	187.7	187.7	187.7	187.7	938.5
Severance Tax Notes	76.5	82.8	82.2	65.2	50.9	357.5
Subtotal Senior STBs	264.2	270.5	269.9	252.9	238.6	1,296.0
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	148.7	168.5	182.0	179.5	179.8	858.6
Subtotal Supplemental STBs	148.7	168.5	182.0	179.5	179.8	858.6
Total Sources of Funds	\$711.8	\$439.0	\$633.7	\$432.4	\$625.8	\$2,842.7
Uses of Funds (millions)						
Projects approved by referendum	298.9	-	181.9	-	207.4	688.2
New Statewide Capital Projects	130.3	216.4	215.9	202.3	190.9	955.8
Authorized Projects - Series 2011A-1 and 2011S-C*	67.4	-	-	-	-	67.4
Authorized but Unissued STB Projects*	13.6	-	-	-	-	13.6
10% Water Projects	26.4	27.0	27.0	25.3	23.9	129.6
5% Colonias Projects	13.2	13.5	13.5	12.6	11.9	64.8
5% Tribal Projects	13.2	13.5	13.5	12.6	11.9	64.8
Education Capital	148.7	168.5	182.0	179.5	179.8	858.6
Total Uses of Funds	\$711.8	\$439.0	\$633.7	\$432.4	\$625.8	\$2,842.7
Estimated Permanent Fund Transfer	47.0	35.0	2.5	8.0	8.6	101.2

HB50: Reduce Senior from 50 to 45%, Change Earmark Percentages						
Core Bonding Programs						
Sources and Uses of Funds						
Bonding Capacity Available for Authorization						
December 2011 Estimate						
	FY12	FY13	FY14	FY15	FY16	Five-Year
Sources of Funds (millions)						
General Obligation Bonds	298.9	-	181.9	-	207.4	688.2
Severance Tax Bonds	187.7	157.1	157.1	157.1	157.1	816.1
Severance Tax Notes	76.3	61.7	60.6	47.7	37.0	283.4
Subtotal Senior STBs	264.2	218.8	217.7	204.8	194.1	1,099.5
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	148.7	168.5	182.0	179.5	179.8	858.6
Subtotal Supplemental STBs	148.7	168.5	182.0	179.5	179.8	858.6
Total Sources of Funds	\$711.8	\$387.2	\$581.6	\$384.3	\$581.4	\$2,646.3
Uses of Funds (millions)						
Projects approved by referendum	298.9	-	181.9	-	207.4	688.2
New Statewide Capital Projects	130.3	183.5	182.6	171.8	162.8	831.1
Authorized Projects - Series 2011A-1 and 2011S-C*	67.4	-	-	-	-	67.4
Authorized but Unissued STB Projects*	13.6	-	-	-	-	13.6
10% / 11.11% Water Projects	26.4	24.3	24.2	22.8	21.6	119.2
3% / 2.5% Colonias Projects	13.2	3.3	3.4	3.1	4.9	34.1
3% / 2.5% Tribal Projects	13.2	5.5	5.4	5.1	4.9	34.1
Education Capital	148.7	168.5	182.0	179.5	179.8	858.6
Total Uses of Funds	\$711.8	\$387.2	\$581.6	\$384.3	\$581.4	\$2,646.3
Estimated Permanent Fund Transfer	47.0	60.0	31.3	36.3	34.4	209.4

Under House Bill 50, the amount available for new statewide capital projects authorized by the Legislature would fall from \$955.8 million to \$831.1 million. The amount available for water trust board projects over the next five years would fall from \$129.6 million to \$119.2 million, while the amount available for tribal and colonias projects over the next five years would fall from \$64.8 million to \$34.1 million each. Estimated transfers to the Severance Tax Permanent Fund over the next five years would increase from \$101.2 million to \$209.4 million.

It should be noted that under current law and under House Bill 50, the Legislature always has the ability to enact "super sweep" legislation that could reduce or eliminate the transfers to the Severance Tax Permanent Fund projected below and make the cash that would transfer available for additional capital projects.

SIGNIFICANT ISSUES

DFA notes that STB earmarks for colonias and tribal infrastructure projects and severance tax permanent fund contributions are both worthwhile competing uses for severance tax revenues. STB projects for tribal and colonias infrastructure were enacted to provide critical infrastructure improvements in some of the State's most impoverished areas. These STB projects are used to finance lasting capital assets. In this sense, capital projects financed with STBs – like Permanent Fund contributions – are also an investment in the future of New Mexico. But the State must choose projects strategically to ensure the State's investment in capital assets yields lasting benefits.

The Environment Department reports that recent applications submitted to the Indian Affairs Department for the Tribal Infrastructure Fund demonstrate a need of over \$60M in basic infrastructure on tribal lands within New Mexico. The current allocation of 5% of severance tax bond capacity (approximately \$13.2 M this fiscal year) is still woefully inadequate to even begin to meet these needs. A 50% reduction in this bonding capacity will cut the available funds from \$13.2M to \$6.6M thus further reducing the ability of the fund on a year to year basis to meet these infrastructure needs. HB 50 will have a similar impact on the Colonias Infrastructure Fund as well.

The severance tax permanent fund contributes to General Fund revenue, stimulating the economy through government spending over the long term. For every dollar the State wants to spend, severance tax permanent fund distributions to the general fund reduce the amount of taxes that must be collected. Alternately, capital projects stimulate the economy in the near term through construction activity and generation of gross receipts. Also, the availability of productive capital assets increases the productivity of the state's economy.

Investing severance tax revenues in the Permanent Fund is not without risk. From 1994 to present, after adjusting for contributions and distributions, annual return on the Permanent Fund has fluctuated from -29% to 22% with an average return over the period of 7.7%.

SS/svb