

LFC Requester:	Torres
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**AGENCY BILL ANALYSIS
2024 REGULAR SESSION**

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SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:
Original **Amendment**
Correction **Substitute**

Date 1/30/24
Bill No: SB 217

Sponsor: Rodriguez, N.
Short Title: Severance Tax Bond Fund Distributions

Agency Name and Code SIC 337
Number: _____
Person Writing Iglesias
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SECTION II: FISCAL IMPACT

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		
	\$82,530.0	\$82,530.0	Recurring	Severance Tax Permanent Fund
	Positive, see fiscal implications		Recurring	General Fund (increased distributions from the STPF)

(Parenthesis () Indicate Expenditure Decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Senate Bill 217 provides for \$82.53 million to be distributed annually from the Severance Tax Bonding Fund to the Severance Tax Permanent Fund (STPF) unless a lesser transfer is needed for Board of Finance to avoid a potential shortfall in debt service obligations. This distribution would occur on December 31st of each year from 2024 to 2034.

The bill also adds a section to ensure bonding capacity for public schools is held harmless and remains at a level consistent with projections in the most recent Board of Finance estimates of severance tax bonding capacity.

This bill does not contain an effective date and, if signed, would go into effect May 15, 2024 (90 days after the Legislature adjourns).

FISCAL IMPLICATIONS

This bill directs \$82.53 million to the severance tax permanent fund (STPF) annually 2024 through 2034. This amount is assumed to be an estimate of the debt service that would be needed if the Legislature authorized, and BOF issued, the full FY24 severance tax bond (STB) capacity. Assuming this year’s capital outlay bill does not include STB authorizations, this bill would direct the estimated debt service amount to the STPF instead.

If the Legislature does not authorize STBs for FY24, this bill ensures the funds would be deposited in the STPF rather than increasing supplemental severance tax bonding capacity or future capacity. The bill will not impact the distributions to the earmark funds projected in the Board of Finance’s most recent estimates (Water Trust Board, colonias infrastructure fund, tribal infrastructure fund, housing trust fund), or the bonding capacity for public schools capital outlay, or future severance tax bonding capacity for new capital outlay projected. It is possible the limit on supplemental severance tax bonding capacity in this bill could result in an additional transfer of any remaining cash in the bonding fund to the STPF for FY24; however, staff do not have a potential estimate for this amount at this time.

The table below estimates the effect this bill would have on long-term growth of the severance tax permanent fund (STPF) and distributions from the STPF to the general fund.

Calendar Year	Current Estimated STPF Ending Balance (\$MM)	New Estimated STPF Ending Balance under SB217 (\$MM)	Fiscal Year	Current Estimated STPF Distribution to General Fund (\$MM)	New STPF Estimated Distribution to General Fund under SB217 (\$MM)	Additional Estimated General Fund Distribution from STPF under SB217 (\$MM)
2023	\$9,545.3	\$9,545.3	FY23	\$265.8	\$265.8	-
2024	\$9,995.3	\$10,077.9	FY24	\$289.6	\$289.6	-
2025	\$11,297.4	\$11,467.6	FY25	\$332.8	\$332.8	-
2026	\$13,223.9	\$13,486.4	FY26	\$373.8	\$374.6	\$0.8
2027	\$15,570.2	\$15,929.1	FY27	\$425.0	\$427.4	\$2.4
2028	\$18,052.3	\$18,510.8	FY28	\$486.0	\$490.9	\$4.8
2029	\$20,503.3	\$21,064.2	FY29	\$560.5	\$568.8	\$8.2
2030	\$22,988.4	\$23,653.8	FY30	\$640.5	\$653.0	\$12.5
2031	\$25,356.0	\$26,128.1	FY31	\$739.3	\$756.3	\$17.0
2032	\$27,701.7	\$28,582.5	FY32	\$849.2	\$870.9	\$21.7
2033	\$30,043.5	\$31,035.5	FY33	\$963.2	\$989.7	\$26.5
2034	\$32,118.2	\$33,223.5	FY34	\$1,077.3	\$1,108.6	\$31.4
2035	\$34,225.7	\$35,364.0	FY35	\$1,190.0	\$1,226.4	\$36.4
2036	\$36,237.5	\$37,406.0	FY36	\$1,299.2	\$1,340.7	\$41.5
2037	\$38,164.9	\$39,361.2	FY37	\$1,404.8	\$1,450.7	\$46.0
2038	\$39,985.7	\$41,208.1	FY38	\$1,507.1	\$1,556.7	\$49.7
2039	\$41,691.9	\$42,939.5	FY39	\$1,605.4	\$1,658.1	\$52.6
2040	\$43,278.0	\$44,550.6	FY40	\$1,698.9	\$1,753.7	\$54.8
2041	\$44,739.1	\$46,036.9	FY41	\$1,788.9	\$1,845.0	\$56.1
2042	\$46,076.6	\$47,400.2	FY42	\$1,874.0	\$1,931.4	\$57.4

Calendar Year	Current Estimated STPF Ending Balance (\$MM)	New Estimated STPF Ending Balance under SB217 (\$MM)
2043	\$47,297.1	\$48,646.8
2044	\$48,422.7	\$49,798.9
2045	\$49,545.6	\$50,949.0
2046	\$50,674.0	\$52,105.0
2047	\$51,812.5	\$53,271.7
2048	\$52,964.6	\$54,452.6
2049	\$54,132.7	\$55,649.9
2050	\$55,317.4	\$56,864.6

Fiscal Year	Current Estimated STPF Distribution to General Fund (\$MM)	New STPF Estimated Distribution to General Fund under SB217 (\$MM)	Additional Estimated General Fund Distribution from STPF under SB217 (\$MM)
FY43	\$1,953.9	\$2,012.5	\$58.6
FY44	\$2,028.2	\$2,088.1	\$59.8
FY45	\$2,097.0	\$2,158.0	\$61.0
FY46	\$2,160.2	\$2,222.5	\$62.2
FY47	\$2,219.2	\$2,282.6	\$63.5
FY48	\$2,275.0	\$2,339.7	\$64.7
FY49	\$2,328.9	\$2,394.9	\$66.0
FY50	\$2,382.1	\$2,449.4	\$67.3
Cumulative Additional General Fund Distribution under SB217			\$1,022.9

While not immediate, the additional inflows into the severance tax permanent fund under this bill would increase the distributions from the STPF to the general fund. Through 2050, the estimates above show the cumulative additional distributions to the general fund could exceed \$1 billion.

State Investment Office staff used the following assumptions to perform this analysis:

- For calendar years 2024-2033, we assume an expected annual compound return on STPF investments of 6.73 percent, consistent with our April 2023 asset allocation study that considers our general consultant RVK's capital market assumptions and return expectations for the various asset classes in which the STPF is invested. For calendar years 2034 and beyond, the analysis assumes the targeted rate of return of 6.75 percent.
- Contributions of severance tax revenue to the STPF under current law are assumed to be equal to the Board of Finance's estimates from December 2023, which provide inflow projections through 2033. Longer-term inflows into the fund are estimated using internal oil and gas price and production projections and applying the statutory limits for use of those revenues for bonding capacity.
- Distributions from the STPF to the general fund of 4.7% of the five-year average market value of the STPF, consistent with current law.

SIGNIFICANT ISSUES

A 2019 LFC volatility analysis found that distributions from the permanent funds are the state's most stable (i.e. least volatile) source of general fund revenue. This is because the distributions from the permanent fund are based on five-year averages of the fund's ending balance, which reduces the impact of annual volatility in the STPF caused by market swings and variance in oil and gas inflows. For example, in 2008 the value of the STPF fell nearly 32% during the Global Financial Crisis; however, general fund distributions from the STPF *grew* by 3.6% in FY08 and by 8% in FY09.

By investing additional funds into the STPF, this bill would further allow the permanent fund to ultimately deliver a stable and growing source of general fund revenue to support state budgets.

PERFORMANCE IMPLICATIONS

Below is investment performance data for the STPF, as of 11/30/23:

	1 year	3 years	5 years	7 years	10 years
STPF Returns (net of fees)	4.39	4.55	5.51	6.47	5.90

The Council anticipates the next decade may be one of both volatility and depressed investment returns. Longer-term returns, which include one or both of the major global investment crises experienced this century, are still struggling to achieve the SIC's long-term target of 6.75%. Like many institutional investors, the SIC has reduced its return expectations in the past few years, and have emphasized our expectation of potentially muted returns, given that current stock and bond valuations are extremely high on a historic basis.

ADMINISTRATIVE IMPLICATIONS

The bill has no significant administrative implications. The SIC would likely be able to incorporate the new capital with existing dollars without incurring significant additional investment expense or resources.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

A similar mechanism was established in 2023 (SB378) to set a base recurring distribution of \$23.69 million from the severance tax bonding fund to the STPF from 2023 to 2033. That year, the distribution was put in place because the annual capital outlay bill did not include senior STB authorizations and the legislature instead directed the estimated debt service amount to the STPF. Similarly, if no senior STBs are authorized for the 2024 legislative session, then it is presumed that the distribution to the STPF in this bill is the estimated amount of debt service that would instead be directed to the permanent fund.