



New Mexico State Investment Council



PUBLIC SCHOOL CAPITAL OUTLAY TASK FORCE

**SEVERANCE TAX PERMANENT FUND
CONTRIBUTIONS & DISTRIBUTIONS**

AUGUST 6, 2013



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Severance Tax Permanent Fund: Overview

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- June 30 2013 STPF assets: \$4.147 billion
- October 2007 STPF assets: \$4.803 billion
 - **-\$656 million** off high watermark
- STPF annual distributions: 4.7% of 5-year average
- FY14 distributions: \$170 million (based on CY 2012)
- FY09 distributions: \$191 million (based on CY 2007)
 - **-\$21 million** less to general fund this year



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STPF- LGPF Comparison

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Severance Tax Permanent Fund

- June 30 2013 balance: \$4.147 billion
- October 2007 balance: \$4.803 billion
 - -\$656 million off high watermark
- **-13.7% decrease**

Land Grant Permanent Fund

- June 30 2013 balance: \$12.137 billion
- October 2007 balance: \$11.406 billion
 - +\$731 million above old high watermark
- **+6.5% increase**



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STPF vs. LGPF Distributions

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Severance Tax Permanent Fund

- Annual distributions: 4.7% of 5-year average
- FY2009 distribution: \$191 M to general fund
- FY2014 distribution: \$170M to general fund
- **-\$21M**

Land Grant Permanent Fund

- Annual distributions: 5.8%/5.5% 5-yr average
- FY2009 distr. (5.8%): \$521M to beneficiaries
- FY2014 distr. (5.5%): \$535M to beneficiaries
- **+\$14M (at lower rate)**

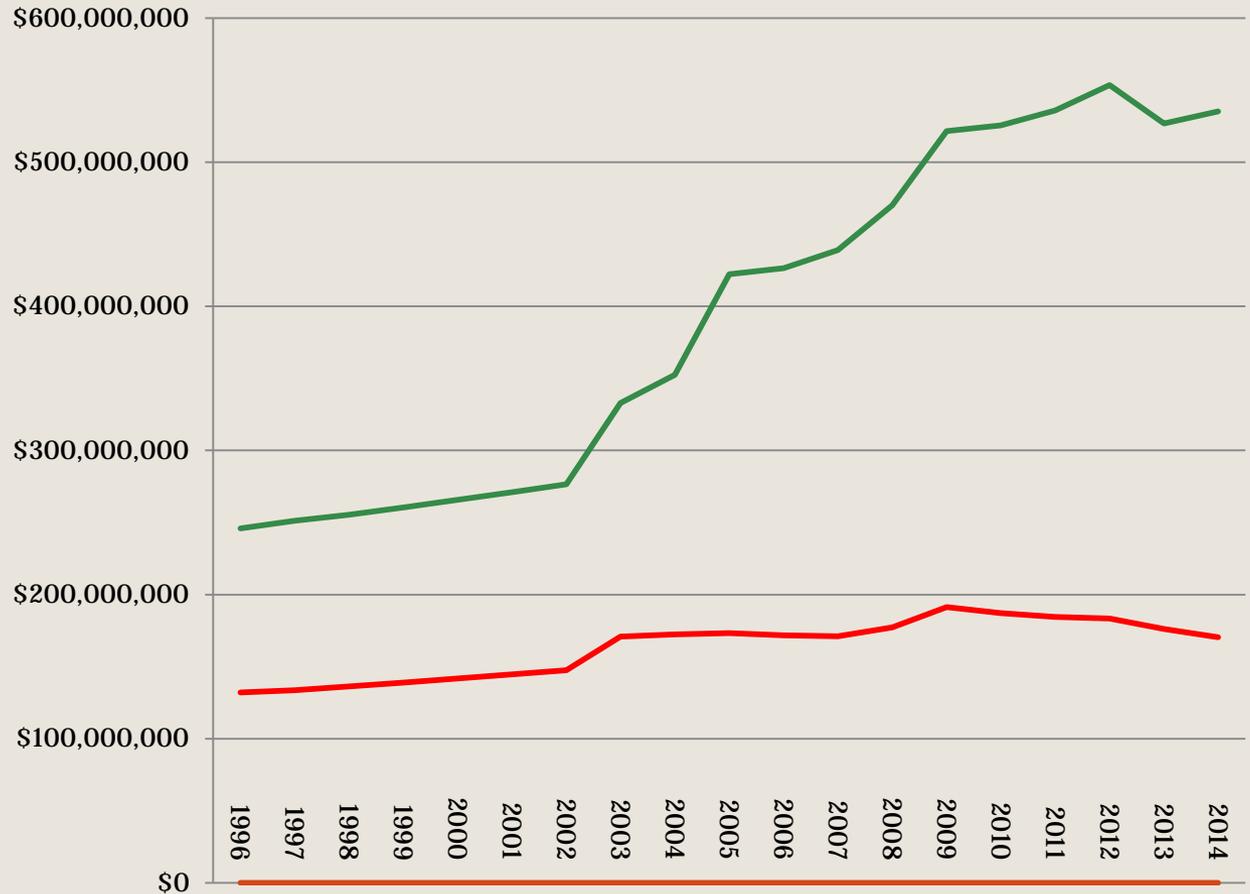


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Permanent Fund Distribution Rates

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- **LGPF:**
4.9%/year
increase
- **STPF:**
1.7%/year
increase





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PF distributions: differences

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- **LGPF 5 & 10-year rates of investment return:**
 - 5 year: 4.1%
 - 10-year: 7.1%
- **LGPF 10-year average for contributions:**
 - **\$393.8 million/year (in-flows)**
- **STPF 5 & 10-year rates of investment return:**
 - 5 year: 3.0%
 - 10-year: 6.4%
- **STPF 10-year average for contributions:**
 - **\$36.3 million/year (in-flows)**



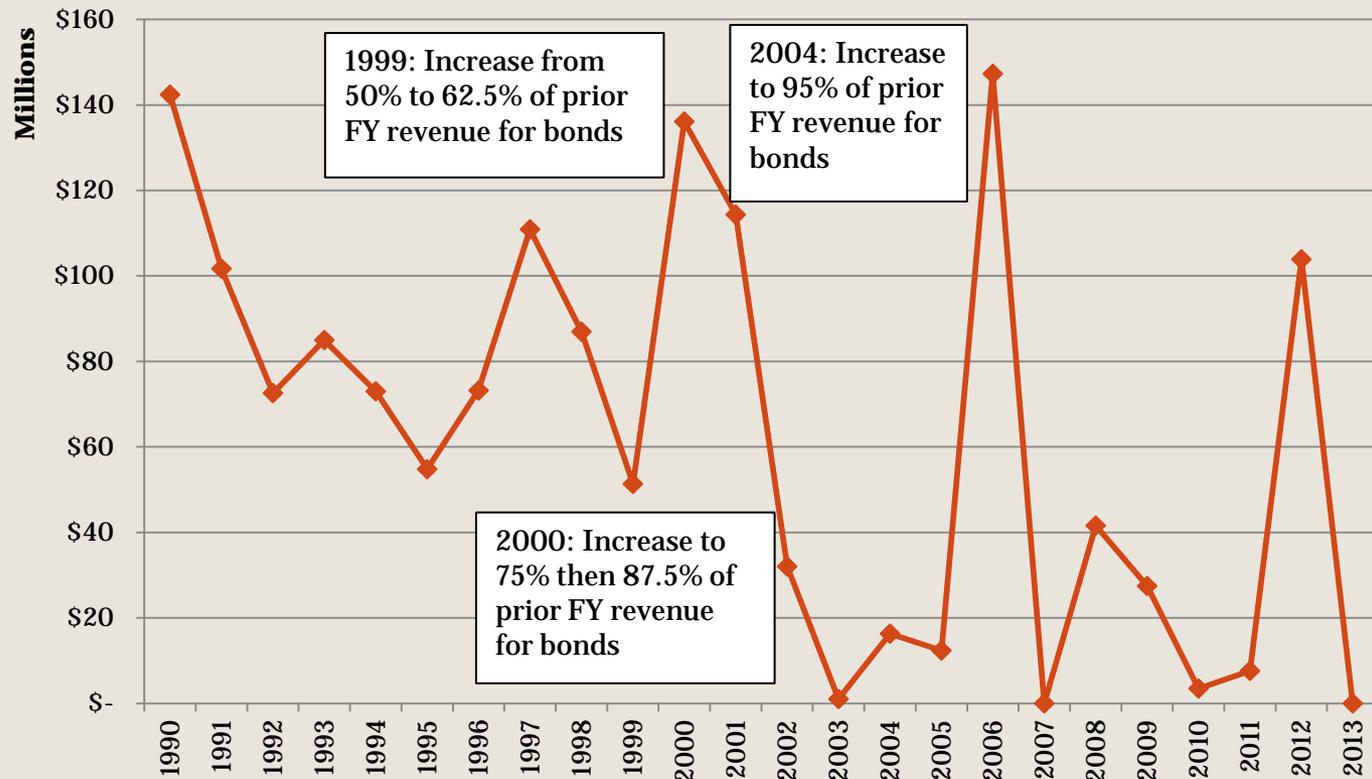
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Transfer History: Severance Tax Bonding Fund to STPF

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Calendar Year	Amount Transferred
1990	\$ 142,400,000
1991	\$ 101,700,000
1992	\$ 72,600,000
1993	\$ 85,000,000
1994	\$ 73,000,000
1995	\$ 54,800,000
1996	\$ 73,200,000
1997	\$ 110,895,604
1998	\$ 86,966,166
1999	\$ 51,356,981
2000	\$ 136,113,342
2001	\$ 114,325,831
2002	\$ 32,034,751
2003	\$ 1,032,282
2004	\$ 16,318,268
2005	\$ 12,371,958
2006	\$ 147,282,474
2007	\$ 8,029
2008	\$ 41,590,792
2009	\$ 27,472,206
2010	\$ 3,488,067
2011	\$ 7,617,058
2012	\$ 103,888,282
2013	\$ 85

Severance Tax Contributions to Severance Tax Permanent Fund





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Ensuring Continued Severance Tax Benefits

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- **Q: If no severance taxes, how big would the STPF have to be to produce same benefits it does now?**
 - Distributions: \$175M/year average
 - Bonding Capacity: \$250M/year average
- **$\$250M + 175M = \$425M$**
- **$\$425M / 4.7\% = \$9.042B$**
- **Value to attain needed 5-year average: \$10.4B**
- **Conclusion: STPF would need to grow to about \$10.4B to produce same benefits NM currently receives through combined STPF distribution & severance tax bonding (\$6B more than current value)**



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Permanent Fund Health: Overview

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- **\$12.2B LGPF:**
 - Healthy returns & contributions: maintaining/growing fund
- **\$4.1B STPF:**
 - Inconsistent contributions: fund losing real dollar value, resulting in diminished distributions to general fund
- **\$170M Tobacco Settlement Permanent Fund:**
 - No new contributions since 2008: no to slow real dollar value growth; fund cannot make distributions & self-sustain
- **\$46M Water Trust Permanent Fund:**
 - No new contributions, \$4M/yr distributions; better than a 50% chance the fund will be \$0 in 20 years



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Closing Thoughts

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- **STPF & the power of a permanent endowment fund**
 - STPF distributions: \$170M in FY 2014
 - Approximately 45% of annual STPF distributions go to public school operational budget
- **The lower the yearly contributions/inflows, the less the fund can grow (or the greater chance it shrinks)**
- **The less the fund grows, the lower the annual distributions to the general fund/schools**
- **The bigger the fund grows, the greater the benefits to the state schools every year & over time**