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## **BONDING CAPACITY FISCAL IMPACT REPORT**

SPONSOR: Coll DATE TYPED: 02/09/01 HB 379  
 SHORT TITLE: Amend Severance Tax Bonding Act SB \_\_\_\_\_  
 ANALYST: Williams

### **CAPACITY**

Capacity		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY03	Total		
68,000.0 to 85,000.0					Supplemental Severance Tax Bond

(Parenthesis ( ) Indicate Capacity Decreases)

### **REVENUE**

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
		\$ (800.0)	Recurring, but es- calates over time	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### **AUTHORIZED PROJECTS \***

Project Authorization		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
68,000.0 to 85,000.0				Public School Capital Outlay

(Parenthesis ( ) Indicate Potential Project Authorization Decreases)

\* Per existing law, the additional capacity would be authorized for public school capital outlay projects.

Duplicates/Conflicts with/Companion to/Relates to SB 190  
**SOURCES OF INFORMATION**

LFC Files

Department of Finance and Administration, State Board of Finance (SBOF) analysis not submitted

## **SUMMARY**

### Synopsis of Bill

The bill would amend the Severance Tax Bonding Act to increase supplemental severance tax bond capacity, currently principally used to fund public school capital outlay. Current law provides for issuance of supplemental severance tax bonds with a maturity less than one year (sponge bonds) based on 87.5 percent (7/8ths) of severance tax bonding fund revenue during the *prior* fiscal year. Severance tax bonding fund revenue in FY00 was \$204.4 million (unaudited), and the latest estimate to be released today is for \$351.7 million in FY01 revenues. The amendment would authorize the State Board of Finance to use either a *prior year or a current year* test, whichever creates the greatest amount of capacity. The actual amount of capacity is somewhat uncertain due to the volatility of crude oil and natural gas prices as well as various cash flow issues, but the legislation would authorize the state board of finance to select the larger amount after analyzing both scenarios.

### Significant Issues

There should be no effect on bond holders or ratings; bond holders should not care whether the STBF surplus is used for sponge bonds or transferred to the STPF. The SBOF is expected to take a prudent approach to issuing these sponge bonds, consistent with past practices.

A recent study prepared by the State Investment Council advisor, Barra Rogers Casey, indicated that the current distribution formula reasonably protects the value of the corpus against inflation; in other words, the current 4.7 percent distribution is somewhat conservative and allows real growth in the corpus of the fund.

## **FISCAL IMPLICATIONS**

The Department of Finance and Administration, SBOF has not prepared a fiscal analysis of the impacts of this bill. However, in conversations today with DFA staff, they note the potential for an increase in this year's supplemental sponge bond capacity of approximately \$68 million. In comparison, the current projection of supplemental severance tax bond capacity is \$75 million. LFC analysis indicates the incremental amount from this legislation could be from \$68 million to approximately \$85 million. Per existing law, the additional capacity would be authorized for public school capital outlay projects.

Under current law, STBF revenue not used for debt service is transferred to the severance tax permanent fund. Because STPF distributions are based on 5 year average of assets on December 31, the short-run reduction in general fund revenue is very small in the early years. Even under the potentially higher \$85 million, the FY03 distribution from the STPF to the general fund would be reduced by \$800.0. This amount would grow over time.

## **CONFLICT/DUPLICATION/COMPANIONSHIP/RELATIONSHIP**

**House Bill 379 -- Page 3**

HB 170 makes various technical and other changes to the Severance Tax Bonding Act. HB 170 would amend the same section of law that this bill proposes to amend.

AW/ar