F I S C A L   I M P A C T   R E P O R T

SPONSOR Saavedra

ORIGINAL DATE 1/21/06
LAST UPDATED 1/23/06

HB 41

SHORT TITLE Severance Tax Permanent Fund Transfer

SB

ANALYST Schardin

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
125,000		Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
		1,175	Recurring	General Fund
125,000			Non-Recurring	Severance Tax Permanent Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB47 and SB66.

SOURCES OF INFORMATION
LFC Files

Responses Received From
State Investment Council (SIC)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 41 would transfer $125 million from the general fund to the severance tax permanent fund (STPF) at the end of FY06.

FISCAL IMPLICATIONS

Transferring $125 million from the general fund to the STPF would reduce the FY07 transfer to general fund reserves by $125 million. The LFC currently projects general fund reserves to total $1.044 billion at the end of FY06. This amount includes $352.5 million in the general fund operating reserve, $137.1 million in the appropriation contingency fund, $83.9 million in the tobacco permanent fund, and $470.3 million in the tax stabilization reserve. Both the LFC and the governor have adopted a target of keeping general reserves at 10 percent of recurring appropriations, which equals $471 million in FY06. Transferring $125 million to the STPF would reduce general fund reserves to a level of $918.8 million, or 19.5 percent of recurring appropriations.

Transferring $125 million from the general fund to the STPF would increase the STPF corpus by $125 million. The average market value of the STPF at the end of the last five calendar year's is the base for 4.7 percent distributions to the general fund, so it will take five years for general fund distributions from the STPF to fully reflect the injection to the STPF corpus. Increasing the market value by $125 million during CY2006 would increase STPF distributions by $1.2 million in FY08, $2.4 million in FY09, $3.8 million in FY10, $5.2 million in FY11, and $6.7 million in FY12.

SIGNIFICANT ISSUES

Preservation of the STPF corpus depends on contributions to the fund from the severance tax bonding fund (STBF) and earnings to the fund exceeding distributions from the STPF to the general fund that are constitutionally mandated. Although contributions to the STPF exceeded $100 million in CY2000 and CY2001, contributions were only $32 million in CY02 and $1.3 million in CY03. This decline in contributions to the STPF is due to proliferation of the severance tax sponge bonds, which are used to prevent transfer of STBF balances to the STPF. By boosting STPF contributions, House Bill 41 would help ensure preservation of the STPF corpus.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 41 relates to House Bill 47, which would transfer $200 million from the general fund to the STPF. It also relates to Senate Bill 66, which would transfer $1 billion from the general fund to the LGPF.

SS/yr