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

SPONSOR Larranaga **ORIGINAL DATE** 1/21/06 **LAST UPDATED** 1/23/06 **HB** 47

SHORT TITLE Severance Tax Permanent Fund Transfer **SB**

ANALYST Schardin

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
200,000		Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
		1,880	Recurring	General Fund
200,000			Non-Recurring	Severance Tax Permanent Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB41 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 47 would transfer $200 million of non-recurring revenue from the general fund to the severance tax permanent fund (STPF) at the end of FY06.

FISCAL IMPLICATIONS

Transferring $200 million from the general fund to the STPF would reduce the FY07 transfer to general fund reserves by $200 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 $200 million to the STPF would reduce general fund reserves to a level of $843.8 million, or 17.9 percent of recurring appropriations.

Transferring $200 million from the general fund to the STPF would increase the STPF corpus by $200 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 $200 million during CY2006 would increase STPF distributions by $1.9 million in FY08, $3.9 million in FY09, $6.1 million in FY10, $8.3 million in FY11, and $10.8 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 47 would help ensure preservation of the STPF corpus.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 47 relates to House Bill 41, which would transfer $125 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.

TECHNICAL ISSUES

According to the December 2005 consensus revenue estimate, nonrecurring revenue in FY06 is scheduled to total -$105.5 million, meaning that non-recurring revenue is insufficient to make the transfer. Amend the bill to read "$200 million of the general fund remaining at the end of fiscal year 2006 shall be transferred to the severance tax permanent fund."

SS/yr