LFC Requester:	

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 1/31/24
Bill No: SB217

Sponsor: Nancy Rodriguez
Short Title: Severance Tax Bond Distributions

Agency Name and Code Number: Department of Finance & Administration, 341
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		**Recurring or Nonrecurring**	**Fund Affected**
FY24	**FY25**		

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Nonrecurring**	**Fund Affected**
FY24	**FY25**	**FY26**		
$0.00	**($82,000.00)**	**($82,000.00)**	Recurring for 10 years, from December 2024 through December 2034	Severance Tax Bonding Fund
$0.00	**$82,000.00**	**$82,000.00**	Recurring for 10 years, from December 2024 through December 2034	Severance Tax Permanent Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Senate Bill 217 provides for a minimum distribution of $82,530,000 annually from the severance tax bonding fund to the severance tax permanent fund every year for 11 years (FY 2025 through FY 2035). The bill provides for the adjustment of the minimum transfer amount should a lesser transfer amount be required in order for the State Board of Finance to avoid potential shortfalls in debt service obligations.

FISCAL IMPLICATIONS

The bill would provide for a minimum of $907.83 million to be transferred to the Severance Tax Permanent Fund between December 2024 (FY25) and December 2034 (FY35), increasing the revenues to that fund by that much. The State Board of Finance estimates bonding capacity by January 15th of each year. The required minimum transfer would be taken into account in the bonding capacity through an estimated reduction in revenues. Thus, the proposed minimum transfer would *reduce* senior severance tax bonding capacity annually for the 10-year period of FY24 through FY33, with an overall five-year drop in capacity for FY24 through FY28 estimated to be approximately $326 million (bonds and notes), or about $65.5 million per year. Accounting for this drop, senior severance tax bonding capacity would be estimated at an average $1.3 billion annually for the same five-year period, which is still historically very high. Supplemental severance tax bonding capacity would also drop given the proposed minimum transfer, by about $127 million from FY24 through FY28, or about $25 million annually. Supplemental severance tax bonding capacity would then average about $746 million annually over the five-year period, which, again, is still historically very high.

Given the proposed minimum transfer, total severance tax bonding capacity (bonds and notes, senior and supplemental) would be estimated at an average of about $2.0 billion each year for FY24 through FY28, reflecting a reduction of about $91 million annually. When accounting for earmarked projects (nearly always funded from senior severance tax notes), the average capacity available for new capital appropriations would be approximately $1.0 billion each year, reflecting a drop of about $52 million annually over the period.

SIGNIFICANT ISSUES

The severance tax bonding program, overseen and managed by the State Board of Finance

(SBOF), issues long-term severance tax bonds with a maturity of 10 years. Current annual long-term senior severance tax bonding capacity for FY24 through FY33 is $666.5 million. SBOF estimates an annual debt service, spread equally across 10 years, to be $82.17 million, or $821.73 million for the life of any bond issued in FY24. If that debt service were to be spread across 11 years, as the bill contemplates, the annual debt service would be $74.70 million. The bill as written has a larger distribution to the permanent fund transfer, of about $907.83 million in total, or $82.53 million annually for 11 years.

For the bill to align with the SBOF estimation of debt service savings for FY24, when the foregone issuance of $666.5 million would have occurred, the amount to be transferred should be $82.17 million annually for 10 years or $74.70 million for 11 years.

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS