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

ORIGINAL DATE 02/14/13
SPONSOR Shendo **LAST UPDATED** **HB**

SHORT TITLE Transportation Reinvestment Zone Act **SB** 314

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
		See Narrative		Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 314 creates the Transportation Reinvestment Zone Act, which would create a mechanism to finance development and redevelopment of transportation infrastructure using incremental gross receipts taxes dedicated to a Transportation Reinvestment Zone (zone) by the State, county, and/or municipality in which the infrastructure is located.

A zone will be formed by the local governing body in which it is located and that local governing body (county commission or city council) will be the zone's governing board as well. The local governing bodies and the State may choose to contribute up to 75 percent of incremental gross receipts tax revenue to the zone for the zone's projects.

For a zone to receive a dedication of the State's gross receipts tax increment, there are two different approval processes included in the bill. First, for zone's requesting a maximum bond principal amount less than $10 million secured by State gross receipts tax increment and where the majority of net bond proceeds are expected to be used for an interstate, highway, street or road that is maintained by the State or federal government, State Board of Finance approval is required. Second, for all other dedications both State Board of Finance and Legislative approval is required to dedicate a portion of the State gross receipts tax increment.

The zones will have the authority to issue bonds payable from zone incremental gross receipts tax distributions.

SB 314 is a duplicate of SB 36 from the 2012 Legislative Session.

Effective Date: Emergency Clause

FISCAL IMPLICATIONS

A major objection to TIDA was that it enhanced private profits with state and local funds. This bill tries to skirt this problem by not explicitly requiring the participation of a developer. Unfortunately, tax increment financing is grossly expensive for state and local governments. Experts estimate that the premium over a comparable revenue bond is as high as 400 basis points. For example, a ten-year revenue bond supported by a $10 million revenue stream and yielding four percent would support $14 million more in proceeds than the equivalent increment bond.

Further, this bill as written introduces misalignment into the tax increment scheme by ignoring the requirement that developers (if included in the project) invest their share "up-front". This requirement is simply a financial best-practice followed by virtually all commercial lenders and helps to align the interests of all the participants.

SIGNIFICANT ISSUES

It is anticipated that the financing mechanism created in this bill would only be used as a last resort, after a local governing body had ruled out imposing additional local option taxes to finance their transportation project or after voters had failed to approve the issuance of bonds to finance their transportation project (as occurred in Albuquerque recently when voters failed to approve bonds to overhaul Paseo del Norte). The Department of Finance and Administration (DFA) reported last year that it was concerned with the policy implications of creating a financing mechanism that would allow local governments to circumvent the will of the electorate.

The State provides funding for transportation projects through bonds issued by the Department of Transportation (such as the GRIP and STIP programs) and occasionally through the Severance Tax Bond program. If the State wishes to allocate funding for transportation projects, whether local or State-owned, these bonding programs allow for more efficient, low cost financing. Traditionally, and with a few exceptions, the State share of gross receipts taxes have been deposited into the State general fund to pay operating expenses of State government. General fund dollars have only been allocated to capital projects in years when surplus "nonrecurring" general fund dollars were left over after operating budgets were funded.

TECHNICAL ISSUES

If local governments' bond statutes are too restrictive, then they should be amended. This is a far better approach than the one advocated in this draft.

The types of projects that will qualify for this type of financing under the definition of "public improvement" are broader than just transportation, reflecting that redevelopment of existing transportation infrastructure may require relocation of other existing infrastructure, such as water/sewer lines, natural gas lines, etc. The bill may benefit from an amendment that clarifies that such non-transportation infrastructure redevelopment can only be included in the project if necessary to accomplish the transportation project.

SS/blm