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## FISCAL IMPACT REPORT

**SPONSOR** Grubestic      **DATE TYPED** 03/09/05      **HB** \_\_\_\_\_

**SHORT TITLE** Sale Of Go Bonds To State Of New Mexico      **SB** 670/a SCORC

**ANALYST** Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
NFI	NFI			

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Finance Authority (NMFA)

Department of Finance and Administration (DFA)

### SUMMARY

#### Synopsis of SCORC Amendments

The Senate Corporations and Transportation Committee (SCORC) amended Senate Bill 670. With respect to the sale of bonds to the state of New Mexico in Section 6-15-5 NMSA 1978, SCORC proposes one amendment, which narrows the eligible bonds that may be sold at private sale to the state to include those that mature in “less than thirty days”.

#### Synopsis of Original Bill

The original Senate Bill 670 modifies current statutes related to the sale of bonds to allow the sale of general obligation bonds to the state of New Mexico by a municipality, at a private sale and at negotiated terms. The bill would allow a public body to issue short-term and variable rate demand general obligation bonds.

#### Significant Issues

According to DFA, the bill would provide a means of increasing the value of capital improvements financed from property tax revenues collected to pay debt service on general obligation bonds (GOBs) by reducing the interest rate of such debt service. According to Lou Hoffman,

Treasurer, City of Albuquerque, "The most efficient use of property tax revenue collected for capital improvements would be to apply the funds directly to a project on a pay-as-you-go basis." However, the New Mexico State Constitution currently restricts the use of property tax revenue collected for debt service purposes to the payment of debt service.

NMFA notes that the issuance of variable rate demand bonds would present interest rate risk and possibly swings in property taxes.

### **FISCAL IMPLICATIONS**

There is no direct fiscal impact of the original or amended bill.

### **OTHER SUBSTANTIVE ISSUES**

DFA cautions of the inherent risk associated with the state purchasing variable interest rate bonds. According to Lou Hoffman, Treasurer, City of Albuquerque, the use of such restructuring approaches should only be undertaken prudently and with the advice of professionals who are experienced in use of structured debt.

The proposed amendments to appear to be beneficial to large municipal governments, such as the City of Albuquerque, that have knowledgeable and experienced staff. However, these proposed amendments could be detrimental to smaller municipal governments that do not understand the risks involved with variable interest rates and/or restructured debt.

According to DFA, the New Mexico Municipal League is in support of this amendment.

**OPJ/lg**