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

SPONSOR Smith **DATE TYPED** 3/2/05 **HB**

SHORT TITLE MINIMUM NMFA TRANSACTION RATE OF RETURN **SB** 708

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	-$400.0	Similar	Recurring	Low-Income Municipalities

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Finance and Administration (DFA)
Department of Transportation (DOT)
The New Mexico Finance Authority (MFA)
Public Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 708 establishes a minimum rate of return on loans made or securities invested by the New Mexico Finance Authority with governmental gross receipts tax revenue or from the proceeds of bonds issued by the authority. The bill states that the rate earned on both loans and securities shall not be less than the sum of:

(1) the weighted average interest rate of the most recently issued series of bonds of the authority; and

(2) a rate sufficient to recover the direct costs of the authority and a reasonable allocation of the authority's other administrative, origination and servicing costs;

Significant Issues

MFA provided the following comments for Senate Bill 708

- Senate Bill 708 would increase borrowing costs to qualified entities as they would not receive any disadvantaged rates from the NMFA and would require the Finance Authority to charge an administrative fee in addition to market interest rates.

- Currently, NMFA is able to set PPRF (Public Project Revolving Fund) (see PED discussion for background) interest rates that include an administrative fee and fix the interest rate for 90 days. NMFA sets its interest rates based upon prevailing tax-exempt rates and gives all borrowers AAA-interest rates. In addition, based upon an entity's Median Household Income (MHI), all or a portion of a borrower's loan may be at interest rates as low as 0 percent.

- As of December 31, 2004 the NMFA has made approximately 420 PPRF loans with 235 of those receiving some portion at disadvantaged rates. These 420 transactions total approximately $599 million while the disadvantaged portion is approximately $26 million.

Senate Bill 708 negatively impacts NMFA's ability to fulfill its legislative mandate by providing low cost financing that benefits local governments who face the task of providing increased services with falling revenues. Additionally, the bill negates the efficiencies of a coordinated planning and financing agency for local and state governments for which NMFA was created.

The DOT highlighted the following issues:

- The bill's provisions could possibly increase the amount of investment earnings on NMDOT GRIP bond proceeds and NMDOT debt service set-asides.

- The NMDOT may be subject to rebatable arbitrage due to excess earnings on bond proceeds. This could be contrary to IRS arbitrage rules that discourage or prohibit excess investment earnings on tax exempt bond proceeds.

- The third issue could involve the amount of issuance costs paid by the NMDOT to the NMFA for future bond issues.

PED notes that the PPRF was created in 1992 as a revolving loan fund to provide low-cost financing for capital projects to eligible entities including public school districts. PPRF financing provides borrowers with access to AAA-insured, tax-exempt rates. PPRF can provide better-than-market rates for some borrowers. The demand for PPRF funding has increased significantly. This type of funding assists public school districts by providing another avenue for selling their Local General Obligation Bonds, especially to those in rural communities that have a MHI less than 75 percent.

FISCAL IMPLICATIONS

The total estimated fiscal impact is roughly -$400 thousand to low-income municipalities. Based on information provided by the MFA, approximately 43 entities qualify for a 0 percent loan (entities with less than 75 percent of state MHI) and about 31 entities qualify for a 3 percent loan (entities with MHI between 75 and 90 percent of state MHI). Assuming a market rate of 4 percent and assuming that the qualifying entities borrow at least $200 thousand each year, the total loss in savings would be approximately $400 thousand ($200 thousand times (4.00%-0.00%), times 43 entities is approximately $344 thousand) plus ($200 thousand times (4.00%-3.00%), times 31 entities is approximately $62 thousand), for a sum of $400 thousand.

The fiscal impact will vary year to year depending on current market conditions, the existing borrowing costs and administrative and transaction fees of the MFA.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 708 conflicts with House Bill 95 and Senate Bill 152, which authorize financing projects from the PPRF as entities may not be able to afford the potentially higher rates.

OPJ/rs:yr