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

SPONSOR Robinson **DATE TYPED** 10/8/05 **HB**

SHORT TITLE Oil Refinery Construction Bonds **SB** 16

ANALYST Francis

REVENUE

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

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
New Mexico Mortgage Finance Administration (NMFA)
Energy Information Agency (http://www.eia.doe.gov/)

Responses Received From
New Mexico Mortgage Finance Administration (NMFA)

SUMMARY

Synopsis of Bill

Senate Bill 16 amends the Statewide Economic Development Finance Act to authorize New Mexico Finance Authority to issue $150 million in revenue bonds for the purpose of building an oil refinery in New Mexico. The issuance of any bonds is contingent on private sector investment of at least $150 million. Proceeds from the refinery will be used for the debt service on the bond.

Significant Issues

NMFA maintains that they already have authority to issue Industrial Revenue Bonds (IRB) that would provide significant tax incentives to a private industry who wants to build a refinery in New Mexico under the Statewide Economic Development Finance Act. Using IRB financing, a company does not pay property or compensating tax on most purchases. For a refinery who will import much of its equipment and have a significant amount of property, this would be a substantial incentive. This would be the most realistic way to finance a project of this size.
NMFA can provide a company with tax exempt financing under certain circumstances but IRS regulations limit the size to $10 million.

There are other forms of financing NMFA can do as well but the best tax advantage would be using the existing IRB process.

Bonds financed through the NMFA are issued based on the parameters of the project and the projected revenues. As such, the project bears the risk of default and not the state or its agencies. According to 2005 NMSA 78 6-25-7:

> The authority may issue project revenue bonds on behalf of an eligible entity to provide funds for a project. Project revenue bonds issued pursuant to the Statewide Economic Development Finance Act shall not be a general obligation of the authority or the state within the meaning of any provision of the constitution of New Mexico and shall never give rise to a pecuniary liability of the authority or the state or a charge against the general credit or taxing powers of the state. Project revenue bonds shall be payable from the revenue derived from a project being financed by the bonds and from other revenues pledged by an eligible entity, and may be secured in such manner as provided in the Statewide Economic Development Finance Act and as determined by the authority.

FISCAL IMPLICATIONS

The fiscal implications depend on the nature of the refinery and how much tax revenue collected from the activities as well as the tax incentives offered, such as low-interest financing.

ADDITIONAL INFORMATION

According to the Energy Information Administration, currently, there are three refineries in New Mexico: Giant Industries has one in Bloomfield and another in Gallup; Navajo Refining Co. Has one in Artesia. Together these three are able to produce roughly 112,600 barrel per calendar day (BCD) in 2005. In 2005, consumption of petroleum, including gasoline, diesel and other fuels, is estimated to be 5.6 million gallons or 133,700 barrels a day.

TECHNICAL ISSUES

See above regarding NMFA authority.

POSSIBLE QUESTIONS

What is the nature of the crude oil in New Mexico? Is it easy to process into gasoline or is it generally used for other fuels?

How would having a refinery in New Mexico assure that New Mexico has adequate fuel supplies when there is a national market for fuel?

Would IRB financing be a better vehicle?

Are there federal programs that may help to finance a project like this?

NF/sb