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

ORIGINAL DATE 02/02/09
SPONSOR Campos **LAST UPDATED** **HB**

SHORT TITLE Double Statewide Debt Limit, CA **SJR** 9

ANALYST White

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	$.01		Recurring	General Obligation Bonds

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$55.0	$55.0	$110.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Finance and Administration (DFA)
Higher Education Department (HED)
Department of Health (DOH)

Responses Not Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Resolution

Senate Joint Resolution 9 proposes and amendment to Article 9, Section 7 of the New Mexico Constitution to allow the state to double its general obligation debt limit, currently 1.0 percent, to 2.0 percent of assessed property valuations in order to benefit health care, and higher education facilities. The resolution would still limit general obligation debt to 1.0 percent excluding debts created for health care and higher education facilities but would allow total indebtedness, including health care and higher education debt, to reach as high as 2.0 percent.

FISCAL IMPLICATIONS

It is difficult to fully determine the revenue impact associated with this resolution as it would require an accurate forecast of future health care and higher education projects. The State Board of Finance (BOF) regularly forecasts New Mexico's bonding capacity, and has provided the information in Table 1.

Table 1:

General Obligation Bond Capacity Comparison under Current Law and SJR 9

Session	Current Law	SJR 9	Difference
2009	$ -	$ -	$ -
2010	$ 183.40	$ 722.90	$ 539.50
2011	$ -	$ -	$ -
2012	$ 189.20	$ 316.30	$ 127.10
2013	$ -	$ -	$ -
2014	$ 205.50	$ 364.60	$ 159.10

Source: State Board of Finance (Dollar Values in Millions)

Department of Finance and Administration (DFA):

> Pursuant to Section 7-38-33 NMSA 1978, DFA sets a state property tax mill rate by September 1. Traditionally, DFA sets the mill at the rate necessary to cover the next three debt service payments. By increasing the amount of general obligation debt that may be outstanding, the bill will allow an increase in debt service payments, and therefore allow an increase in the state property tax rate.
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> Article VIII, Section 2 of the State Constitution limits the state-imposed property tax rate under certain circumstances, but the changes proposed in this resolution would not necessitate a mill levy higher than what is allowed in the Constitution.

This resolution would also potentially jeopardize the State's current general obligation bond rating, AA+, by increasing overall indebtedness. According to the Board of Finance, New Mexico's current outstanding debt per capita, nearly $1,500, is higher than all but three of the twenty-two states that hold a rating of AA+ or better. The State's outstanding debt as a percentage of personal income is roughly 4.7 percent, higher than all but 1 state that received a rating of AA+ or better. By allowing the State's general obligation debt levels to double, the aforementioned ratios, which are utilized by bond rating agencies to evaluate credit risk, would increase substantially.

Because the constitutional amendment in question would significantly increase the amount of projects involved in a general obligation bond issuance, BOF believes it would need an additional FTE to handle the increased workload. BOF projects that this additional FTE would have a recurring general fund impact of $55,000 annually.

SIGNIFICANT ISSUES

Both health care and higher education projects have traditionally made up a significant portion of general obligation bond issuances. According to BOF, between 2000 and 2008 60 percent of projects appropriated from general obligation bonds benefited higher education and 8 percent benefited health facilities. Current estimates show that the amount of debt outstanding attributable to health facilities and higher education this year will be $361.5 million, approximately 0.7 percent of assessed property values.

ADMINISTRATIVE IMPLICATIONS

BOF believes that the constitutional amendment proposed in this resolution would require them to add an additional FTE to handle the increased workload.

TECHNICAL ISSUES

Department of Finance Administration:

> If the 2009 Legislature enacts this resolution, it will be presented to voters for approval at the November 2010 general election, or at any special election prior to November 2010 called for that purpose. If the resolution goes to voters at the November 2010 general election (it will coincide) with the date on which voters are asked to approve general obligation bond projects approved by the 2010 Legislature. The 2010 Legislature would need to take great care drafting contingencies to ensure that the maximum amount of projects may be funded in the case the resolution passes or fails.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If this legislation is not enacted the state general obligation debt limit would remain at 1.0 percent of assessed property valuations for debt related to all general obligation projects.

DMW/mc