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

		ORIGINAL DATE	2/1/18		
SPONSOR	Neville/Smith	**LAST UPDATED**	2/10/18	**HB**	
SHORT TITLE	State Office Building Bonds For A Building			**SB**	193
				ANALYST	Armstrong

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Nonrecurring**	**Fund Affected**
FY18	**FY19**	**FY20**		
See "Fiscal Implications"				

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB306

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Finance Authority (NMFA)
General Services Department (GSD)

Responses Not Received From
Children, Youth and Families Department (CYFD)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 193 authorizes NMFA to issue state office building tax revenue bonds in an amount not to exceed $20 million plus costs of issuance for the purposes of planning, designing, acquiring, constructing, renovating, equipping and furnishing a building in Bernalillo County to be operated by CYFD.

FISCAL IMPLICATIONS

NMFA provided the following analysis:

> The State Building Bond Act ("the Act") provides a platform for State Gross Receipts Tax Revenue Bonds to be issued by NMFA for authorized state building/facility

purposes. The Act limits the total par amount of bonds outstanding to $115 million at any time.

A fixed monthly distribution of State Gross Receipts Tax is distributed to the State Building Bond Fund ("the Fund") to service outstanding bonds issued. By statue, $530 thousand per month is distributed to the Fund to service outstanding bonds issued up to $100 million. If more than $100 million dollars of bonds are issued/outstanding (not to exceed the $115 million cap), the State Gross Receipts Tax distribution to the Fund to service outstanding bonds increases to $670 thousand per month. To date, the distribution of State Gross Receipts Tax has always remained at $530 thousand per month.

The table below, provided by NMFA, shows that while there is capacity to issue the bonds proposed by SB193, the debt service would be significantly back-loaded. Of the total estimated $34.5 million of debt service, $18.5 million would be due in the last three years (2037-2039):

BOND SOLUTION

General Services Department Series 2018C CYFD State Building Bonds							
Period Ending	Proposed Principal	Proposed Debt Service	Existing Debt Service	Total Adj Debt Service	Revenue Constraints	Unused Revenues	Debt Serv Coverage
06/01/2019		865,000	5,470,654	6,335,654	6,360,000	24,346	100.384%
06/01/2020		865,000	5,479,853	6,344,853	6,360,000	15,147	100.239%
06/01/2021		865,000	5,479,210	6,344,210	6,360,000	15,790	100.249%
06/01/2022		865,000	5,476,209	6,341,209	6,360,000	18,791	100.296%
06/01/2023		865,000	5,483,960	6,348,960	6,360,000	11,040	100.174%
06/01/2024	15,000	880,000	5,435,535	6,315,535	6,360,000	44,465	100.704%
06/01/2025	15,000	879,250	5,434,137	6,313,387	6,360,000	46,613	100.738%
06/01/2026	15,000	878,500	5,435,148	6,313,648	6,360,000	46,353	100.734%
06/01/2027	25,000	887,750	5,428,092	6,315,842	6,360,000	44,158	100.699%
06/01/2028	10,000	871,500	5,442,631	6,314,131	6,360,000	45,869	100.726%
06/01/2029	25,000	886,000	5,429,408	6,315,408	6,360,000	44,592	100.706%
06/01/2030	20,000	879,750	5,434,438	6,314,188	6,360,000	45,812	100.726%
06/01/2031	30,000	888,750	5,426,550	6,315,300	6,360,000	44,700	100.708%
06/01/2032	65,000	922,250	5,396,008	6,318,258	6,360,000	41,742	100.661%
06/01/2033	70,000	924,000	5,393,249	6,317,249	6,360,000	42,751	100.677%
06/01/2034	70,000	920,500	5,396,955	6,317,455	6,360,000	42,545	100.673%
06/01/2035	70,000	917,000	5,396,377	6,313,377	6,360,000	46,623	100.738%
06/01/2036	75,000	918,500	5,396,373	6,314,873	6,360,000	45,127	100.715%
06/01/2037	5,285,000	6,124,750	191,443	6,316,193	6,360,000	43,807	100.694%
06/01/2038	5,550,000	6,125,500	187,602	6,313,102	6,360,000	46,898	100.743%
06/01/2039	5,960,000	6,258,000	58,878	6,316,878	6,360,000	43,122	100.683%
	17,300,000	34,487,000	98,272,708	132,759,708	133,560,000	800,292	

Source: NMFA

Due to the 2036 maturity dates for bonds issued in 2008 for the state laboratory and capitol parking structure and for GSD refunding bonds issued in 2016, the existing debt service for currently outstanding bonds decreases by over $5 million from 2036 to 2037.

Currently Outstanding State Office Building Bonds

Series	Original Amount Issued	Outstanding Principal	Project/Purpose	Bond Maturity
Series 2008A	$26,690,000	$21,330,000	State Laboratory	06/01/2036
Series 2008B	$13,245,000	$10,595,000	Capitol Parking Structure	06/01/2036
Series 2009A	$2,456,300	$2,001,300	Capitol Parking Structure	06/01/2038
Series 2009B	$1,015,000	$850,000	Executive Office Building	06/01/2039
Series 2016A	$2,789,054	$2,400,155	DCA Refunding Bonds*	02/01/2023
Series 2016B	$37,320,000	$35,545,000	GSD Refunding Bonds**	06/01/2036

Source: NMFA

SIGNIFICANT ISSUES

NMFA is in the process of issuing bonds in February which will be used to refund the Series 2008A&B State Building Bonds. This will be done as a current refunding and savings achieved will be based on the results and pricing received from the competitive bond sale. It is estimated that approximately $5.9 million in net present value savings will be achieved, equating to 20.25 percent.

Approximately $20 million of bonding capacity exists while maintaining the same $530 thousand of state gross receipts tax distribution (status quo). Bonding capacity exists largely due to savings achieved on the Series 2016A&B Refunding Bonds, as well as savings expected to be achieved with the pending Series 2018A Refunding Bonds to be priced in February. Natural servicing/retirement of outstanding bonds has also added to current bonding capacity available.

Given that the revenue distribution is fixed in statute, only market volatility can impact the bonding capacity available under the Act. In other words, rising interest rates will decrease the amount of available capacity under the program. Alternatively, if interest rates were to decline, capacity could be more than the anticipated $20 million level. Additionally, and in relation to future market/interest rate conditions, additional capacity could potentially be gained as the Series 2009A&B Bonds near its respective redemption dates and could be refunded on a current refunding basis for economic savings. With recent interest rate volatility, the cost of the bonds may increase from what NMFA has estimated before the proposed bonds could be issued.

The Federal Reserve is not meeting again until March, and any decision to raise the federal funds rate would not be made until then. However, effective interest rates fluctuate daily, and interest rates could rise or fall prior to the March meeting as markets react to new economic data. Some market analysts suggest the early February stock market slide may be due in part to increasing inflation concerns, which led to rising interest rates over the last several months. The 10-year U.S. Treasury yield rose to a four-year high in the first week of February, briefly reaching nearly 2.9 percent – up from just over 2 percent less than six months ago. As noted, interest rate risk poses upside and downside risks to bonding capacity, but given recent data, the risk appears to be weighted more to the downside.

NMFA notes the initial structuring that was prepared had a net interest cost of 3.7 percent, and the updated structuring has a net interest cost of 4.2 percent. The initial structuring allowed for 31 percent of principal to be amortized through 2038; however, the updated structuring shows 3 percent in the same period.

According to GSD:

> CYFD has a need for better facilities in order to accomplish their mission of providing services to the children of New Mexico. A State owned building would allow CYFD to consolidate their operations in the Albuquerque area into one central location. CYFD currently occupies leased facilities in various locations in Albuquerque for a total of 138,000 leasable square feet and at a cost of more than $3 million per year. A State owned facility affords the Facilities Management Division (FMD) the opportunity to more easily renovate space to meet the special requirements of the children that CYFD serves.

OTHER SUBSTANTIVE ISSUES

The bill will be effective on May 16, 2018, since there is no effective date. GSD recommends an emergency clause so the request for proposals could be issued as soon as the bill is signed. This will assist in expediting the process. Adding an emergency clause would also allow NMFA to issue the bonds more quickly.

This bill delegates the authority to complete the transaction to GSD, including the selection process used, purchase price, and terms and conditions. If the Legislature wishes to impose additional expectations upon the terms of this transaction, it should communicate those expectations through contingencies and requirements. One such requirement may be to require the State Board of Finance or the Capital Buildings Planning Commission to approve (not just "review") the property disposition before it can be finalized.

JA/sb/JC/al/jle