NEW MEXICO FINANCE AUTHORITY

Agenda Item 3

May 30, 2013

To: New Mexico Legislative Oversight Committee
From: John Gasparich, Chief Executive Officer

Re: Governmental Gross Receipts Tax Background Memo

The Finance Authority most recently sold $44,285,200 of series 2013A PPRF Bonds on May 22, 2013. The bonds were rated AAA by S&P and Aa1 by Moody's with a final maturity in 2038 and an all-in true interest cost of 2.439%. The largest borrowers funded by this bond issue were Western New Mexico University, Eldorado Area Water & Sanitation District, Pecos Schools and Chaves County.

75% of Governmental Gross Receipts Taxes (GGRT) generated each year is pledged to the New Mexico Finance Authority. NMFA's primary role is infrastructure development in New Mexico through the Public Project Revolving Fund (PPRF). GGRT provides a critical component of the PPRF's financial structure. A description of the GGRT is found on the next page.

On page 3 of this handout are coverage calculations that govern the PPRF program using FY2014 data. FY2014 is when revenues and bond debt service are at their highest.

Funds are lent from the PPRF to New Mexico communities at the same interest rates that the Finance Authority achieves when it issues PPRF bonds. Due to Standard & Poor's and Moody's high ratings of the PPRF, the Finance Authority is able to borrow at some of the best rates in the market and all New Mexico communities benefit from having access to those low rates.

GGRT provides extra collateral to prevent a default on PPRF bond debt service. The PPRF program has never had a loan default and GGRT has never been used to pay bond debt service.

GGRT enables legally required risk adjusted coverage to be met in order for the Finance Authority to issue PPRF bonds. GGRT also provides the absolute coverage necessary for the PPRF to receive the AAA rating from S&P and the Aa1 rating from Moody's, which ratings result in low borrowing costs that the Finance Authority passes on directly to New Mexico borrowers.

NEW MEXICO FINANCEAUTHORITY

Governmental Gross Receipts Tax (GGRT)

By legislation, 75% of all GGRT (about $27M/year) is dedicated to NMFA for programmatic purposes. A portion of the remaining 25% is pledged to NMFA to finance State projects.

A governmental gross receipts tax of 5% is imposed on the receipts of New Mexico state and local governments (except public schools and hospitals) from:

- The sale of water by a utility owned and operated by a county, municipality or other political subdivision of the state
- Sewage services
- Refuse collection, refuse disposal, or both
- The sale of tangible personal property, other than water, from facilities open to the general public
- The performance of or admission to recreational, athletic or entertainment services or events in facilities open to the general public
- The renting of parking, docking or tie-down spaces or the granting of permission to park vehicles, tie-down aircraft or dock boats.

The governmental gross receipts tax is not imposed on receipts derived from:

- gross receipts taxes
- compensating taxes
- motor vehicle taxes
- gasoline taxes
- special fuel supplier's taxes
- the oil and gas emergency school, severance, conversation and ad valorem taxes
- resources taxes
- processors taxes
- service taxes
- boat excise taxes
- the sale of livestock or raw agricultural products
- event center surcharges
- stadium surcharges or athletic facility surcharges

There are various deductions that can be claimed under the governmental gross receipts tax – see New Mexico Taxation and Revenue Department publication FYI-105, *GROSS RECEIPTS & COMPENSATING TAXES: AN OVERVIEW* revised 7/1/2008.

PPRF Coverage Calculations

For FY2014, the calculations for actual PPRF program senior lien revenues and bond debt service, after closing of the PPRF 2013A bonds in June, are projected as follows:

FY2014	**Actual Revenues**	**Risk Adjusted Revenues**
Total Loan Revenue	108,750,900	95,650,700 (.88 of actual)
GGRT	27,100,000	20,096,200 (.74 of actual)
Total Revenue	135,850,900	115,746,900 (.85 of actual)
Bond Debt Service	101,211,200	101,211,200
Coverage without GGRT	1.07	**0.95** (**< 1.0 Required**)
Coverage with GGRT	1.34 (target > 1.3*)	1.14 (> 1.0)

* 1.3 is the minimum coverage necessary to maintain ratings.

High ratings translate to low borrowing costs. Low borrowing costs reduce bond debt service costs increasing coverage thus increasing lending capacity.