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

SPONSOR: Park DATE TYPED: 2-21-03 HB 558

SHORT TITLE: UNM Hospital Funding SB

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact (FY07)	Recurring or Non-Rec	Fund Affected
FY03	FY04			
		$5,000.0	Recurring	UNM/HSC

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC files

Responses Received From:

Attorney General (AG)
Commission on Higher Education (CHE)
Department of Finance and Administration (DFA)
Health Policy Commission (HPC)
University of New Mexico Health Science Center (UNM/HSC)

SUMMARY

Synopsis of Bill

House Bill 558 amends statute to allow any State educational institution operating a county hospital to execute a financing instrument dealing with the educational institution's ownership or lease interest in the hospital. HB558 would limit the right of the holders of the debt to seek a judgment against the educational institution.

In other words, this new language means that a debtor (the state educational institution operating a county hospital) could use state property as collateral for a loan (a mortgage, deed of trust or other security interest).

HB558 gives the option to a State educational institution to **retain** or terminate the lease between a County and a State educational institution in the event of failure of a mill levy election for a county hospital or untimely remittance of mill levy funds from a county to the State educational institution. Existing language required the termination with specific exceptions.

Significant Issues

CHE provided the following issues:

According to a representative from the University of New Mexico Health Science Center (UNM HSC), HB 558 would allow a state educational institution to mortgage a piece of property in order to allow them to secure the bond guarantee through the Federal Housing Authority (FHA).

The UNM HSC is the only state educational institution operating a county hospital. The UNM HSC is planning a 400,000 square foot expansion. The expansion is to replace outdated facilities and to stay competitive in today's market. The UNM HSC effectively serves as the state's only teaching hospital and Level I Trauma Center. The construction costs are expected to be $210 million. Based on this figure, debt service costs would range between $13.0 million to $15.0 million annually. UNM/HSC estimates the additional cost of using conventional financing mechanisms to be 250 basis points (i.e. difference between 5 percent and 7.5 percent) or approximately $5 million annually. The bonds would be partially paid through the hospitals expansion (i.e 70 additional beds) and partially through the existing 6.5 mill levy authorized by voters in November 2000, which generates approximately $60.0 million (100 percent collection rate).

UNM HSC has presented to the New Mexico Commission on Higher Education (NM CHE) Facilities Committee a preliminary proposal of the expansion. As the project progresses the UNM HSC will report to the NMCHE Facilities Committee, and then to the Full Commission. All capital projects and revenue bonds must be approved by the NM CHE; other approvals required include the State Board of Finance, UNM Regents and the Bernalillo County Commission.

FISCAL IMPLICATIONS

HB 558 does not contain an appropriation; however passage of the bill will allow UNM HSC to gain preferable interest rates through federal bond guarantees. According to UNM/HSC provisions in HB 558 would save approximately $5.0 million in interest expenses versus conventional bonding beginning in FY07.

According to UNM/HSC, UNM has approximately $200 million in outstanding bonds. Based on his figure, if the university issued bonds for the proposed expansion at the UNM/HSC, the existing bond balance would significantly lower its bond rating.

TECHNICAL ISSUES

The Attorney General notes the following potential issue:
HB 558 raises the constitutional issue of whether or not a state institution can use state property as collateral for a loan (a mortgage, deed of trust or other security interest).

POSSIBLE QUESTIONS

Will operational revenues for UNM/HSC be constrained in futures years if voters in Bernalillo county do not reauthorize the 6.5 mill levy, which is authorized for a maximum of 8 years? Will the revenue derived through the 6.5 mill levy be used to service the proposed debt of the $200.0 million expansion?

SN/njw