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

SPONSOR: Sharer DATE TYPED: 10/29/03 HB

SHORT TITLE: Economic Stimulus Bonding Act SB 10

ANALYST: Williams

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	**FY05**			
(75,500.0)	(76,400.0)		Recurring	General Fund (Ending Balance)
(5,500.0)	(5,500.0)		Recurring	General Fund (gross receipts)
81,000.0	81,900.0		Recurring	Economic Stimulus Anticipation Bonding Fund
Bond proceeds	Bond proceeds			Tax Cut Impact Mitigation Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
No Agency Responses Received

SUMMARY

Synopsis of Bill

The bill is titled the Economic Stimulus Bonding Act, and includes a findings and purpose section. The bill authorizes the New Mexico Finance Authority (NMFA) to issue revenue bonds, to be called “economic stimulus anticipation bonds”, in an amount up to $500 million. The bonds would not be considered general obligation bonds of the state.

Sale of the bonds is contingent upon certification by the Secretary of the Department of Finance and Administration (DFA) that bond proceeds are needed to offset short-term detrimental effects of the tax reduction. The Secretary of DFA would also certify the amount of bond proceeds needed. Terms and other conditions of the bond sale would be set by the NMFA; however, the bill states:

1. bonds would bear market rate of interest,
2. maturity would be capped at thirteen years;
3. debt service payments would not begin until three years from date of issue; and
4. bonds could be repaid early without penalty.

Further, Section 6 of the bill states the bonds may only be sold at private sale to the State Investment Officer.

Issuance costs would be deducted from bond proceeds by the NMFA, with the residual of bond proceeds to be deposited in the newly created fund in the state treasury, the *tax-cut impact mitigation fund*. Balances in this non-reverting fund would be appropriated by the legislature to “mitigate adverse short-term effects of the tax decrease”. After retirement of all economic stimulus anticipation bonds, any unexpected or unencumbered balance in the fund would be transferred to the general fund.

The bill also creates the economic stimulus anticipation bonding fund as a special account within the NMFA, a non-reverting fund. Balances in the fund would be used to repay bondholders along with expenses of the NMFA for payment and administration of the bonds. Other special funds might also be used to repay bond holders. Twice each year, the NMFA must reserve the sum of the debt service, other payments and required reserves for the upcoming twelve months, then transfer the residual from the economic stimulus anticipation bonding fund to the general fund. The general fund transfer is contingent upon certification by DFA and NMFA or an appropriate court that the bonds are retired, no additional obligation exists and that no additional expenditures are necessary.

On October 1 of each year for which bonds are outstanding, beginning sometime in fall of 2004, the Secretary of DFA would determine an amount of 5 percent of general fund appropriations in the prior fiscal year which would be subtracted from that fiscal year’s ending balances. Then, 25 percent of that amount would be transferred to the economic stimulus anticipation bonding fund each year. The NMFA would use these transfer amounts to prepay bondholders.

Finally, in Section 10, the bill amends the Tax Administration Act to intercept $5.5 million of gross receipts and compensating tax for the economic stimulus anticipation bonding fund.

The statute regarding investment of the Severance Tax Permanent Fund and differential rate investments is amended, and new language to authorize investment of the severance tax permanent fund in these new bonds is also included in the bill.

<u>Significant Issues</u>

The bill authorizes new revenue bonds and amends the State Investment Council (SIC) differential rate investment program of the severance tax permanent fund to authorize private sale of these bonds to the SIC. Bond holders would be repaid from balances in the new *Economic Stimulus Anticipation Bonding Fund* which receives General Fund balance distributions and an intercept of gross receipts and compensating tax. Net bond proceeds would be deposited to the new *Tax Cut Impact Mitigation Fund* and would be subject to legislative appropriation.

FISCAL IMPLICATIONS

The bill would reduce recurring general fund revenues by $5.5 million due to the intercept of gross receipts and compensating tax to be distributed to the economic stimulus anticipation bonding fund.

General fund balances would be reduced by approximately $75 million each year due to the transfer to the economic stimulus anticipation funding fund.

Bond proceeds would be available for legislative appropriation. The amount is not presently available from the New Mexico Finance Authority.

This bill creates two new funds and provides for continuing appropriations for debt service.

OTHER SUBSTANTIVE ISSUES

The other non-market rates STPF investments are heavily collateralized. It is unclear whether this proposal would conflict with the prudent investor rule that governs the investment of the permanent funds.

ANA/lg