Legislative Finance Committee
FINANCE FACTS
NEW MEXICO
Understanding State Financial Policy

Bonding Capacity

The amount of funding available for New Mexico capital outlay projects – its "bonding capacity" – is driven by the state's ability to repay the debt created by issuing bonds. New Mexico funds much of its capital outlay with severance tax bonds – repaid with revenues from certain taxes on oil, gas, and other mineral extraction – and general obligation bonds – repaid with property taxes.

Severance Tax Bonds

Severance tax bonds are issued against revenue from severance taxes, taxes based on the value of oil, gas, or other natural resources "severed" from the ground. This revenue is deposited into the severance tax bonding fund. The Board of Finance reports on severance tax bonding capacity every January 15 based on projected revenues in the fund.

New Mexico issues both long-term bonds – typically 10-year – and short-term notes – typically one- to three-days. Capacity for long-term debt is based on estimates for 10 years of revenue, 10 years of debt at the current interest rates, and other factors.

Short-term notes can only be issued on money in the bonding fund not committed to pay off long-term bonds. The notes – called "sponge" bonds in New Mexico because they "sponge" up extra cash in the bonding fund – allow the state to take advantage of left-over capacity.

Any uncommitted money in the bonding fund is transferred twice a year to the severance tax permanent fund, invested by the State Investment Council.

The state can use the severance tax bond fund for four different types of debt: long-term senior bonds, short-term senior notes, and long- and short-term supplemental bonds and notes used for public school projects authorized by the Public School Capital Outlay Council. Although supplemental severance tax debt can be long or short term, the state typically only issues supplemental notes to avoid the long-term obligation of bonds.

By law, total debt is limited to set percentages of the lesser of current-year or prior-year bonding fund revenue. For many decades the amount of total debt was limited to 50 percent of prior-year revenue but the limit had grown to 95 percent by the 2010s. In 2015, the Legislature adopted a plan to phase-in lower limits and stabilize contributions to the permanent fund.

Under the plan, the limit on senior bond debt was set at 49.4 percent in FY16 and phased down to 47.6 percent by FY19. Total debt was limited to 92.8 percent in FY16 and will phase down to 86.2 percent by FY22. Although supplemental debt has separate limits, it is determined by deducting the senior debt limit from the total debt limit.

Another bonding mechanism, called a "sweep," has also been used when revenues came in higher than projected and senior and supplemental debt did not reach the statutory limits.

General Obligation Bonds

Because general obligation bonds must be approved by voters during a general election, the Legislature considers authorizing the issuance of the bonds only during even-numbered years, when the state holds a statewide election in November. General obligation bond capacity is equal to 1 percent of statewide assessed property value from the prior year less the outstanding bond debt.

Statewide assessed value is determined by the Local Government Division of the Department of Finance and Administration each fall after certification of all the county assessors' valuations. Assessed property value is equal to one-third of the actual value of all property, both business and residential. For example, if statewide property value is $100 billion, assessed value is $33.3 billion, and total general obligation bond debt cannot be more than $333 million. Because the bonds are grouped by category for voter consideration (aging services, libraries, education, and state buildings), and voters don't always approve all bond questions, the value of the bonds sold can be less than the amount authorized by the Legislature.

For More Information:
•General obligation bond capacity is limited by the State Constitution, Article IX, Section 8.
•Property tax valuation methods are described in the State Constitution, Article VIII, Section 1.
•The Severance Tax Bonding Act is found in Section 7-27 NMSA 1978.
•The Board of Finance has more information about the programs and the outstanding debt for both general obligation and severance tax bonds: nmdfa.state.nm.us/board_of_finance.aspx.