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## **BONDING CAPACITY FISCAL IMPACT REPORT**

SPONSOR: Rawson DATE TYPED: 03/04/01 HB \_\_\_\_\_  
 SHORT TITLE: Amend Lodgers' Tax Act SB 283  
 ANALYST: Williams

### **CAPACITY** \*

Capacity		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY03	Total		
		See Narrative			

(Parenthesis ( ) Indicate Capacity Decreases)

\* Total project size which could be financed solely from pledging these revenues would be \$4 million if tax exempt or \$3.6 million if taxable.

### **REVENUE**

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ 960.0		Recurring	Lodging Surcharge

(Parenthesis ( ) Indicate Revenue Decreases)

### **AUTHORIZED PROJECTS** \*\*

Project Authorization		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			

(Parenthesis ( ) Indicate Potential Project Authorization Decreases)

\*\* Total project size which could be financed solely from pledging these revenues would be \$4 million if tax exempt or \$3.6 million if taxable.

Duplicates/Conflicts with/Companion to/Relates to SB 221

## SOURCES OF INFORMATION

LFC Files  
Department of Finance and Administration  
Tourism Department  
New Mexico Finance Authority

## SUMMARY

### Synopsis of Bill

The bill authorizes a lodging surcharge which may be imposed by the governing body of a municipality in a Class A county with a population between 60,000 and 75,000 in the 1990 federal census that has imposed an occupancy tax.

The amount of the surcharge would be \$2.50 per room per day it is rented. The lodging surcharge may be imposed only once for a period not to exceed ten years from the effective date of the ordinance imposing the tax.

The revenue may be dedicated to:

- acquiring land for and the design, construction, equipping, furnishing, operating and maintaining a convention center;
- Payments of principal and interest on prior redemption premiums due relating to revenue bonds;
- Costs of collecting and administering the surcharge, including audits required by the Lodgers' Tax Act.

If the municipality has imposed the lodging tax, revenue pledged to these revenue bonds may include:

- proceeds of lodging surcharge after deduction of administrative costs;
- revenue derived from a convention center, after its operation and maintenance costs are paid

Administrative costs relating to the lodging surcharge cannot exceed ten percent in any fiscal year.

The bill does not contain an effective date.

### Significant Issues

Effectively, the bill targets the city of Las Cruces. Las Cruces is currently imposing the lodgers' tax at the maximum five percent rate, which generated \$893,810 in FY99.

## FISCAL IMPLICATIONS

The bill does not contain an effective date. This analysis assumes a full year of revenue.

The Las Cruces Lodgers Association reports that in 1999/2000 there were 384,000 room nights per year, which would produce a total revenue stream of \$960,000 per year, based on the \$2.50 per room charge authorized in SB 221. The bill authorizes a municipality to deduct up to 10% of the collected surcharge receipts, thus, the net revenue stream available to pay bonds would be \$864,000 per year. According to New Mexico Finance Authority, the marketplace would likely require that convention

center bonds meet a minimum debt service coverage of 1.5 times, which means the maximum annual debt service for any bond structure in the above scenario is \$576,000 per year.

Assuming 10-year bonds, the maximum term of the lodging surcharge, the estimated project size available from bond proceeds would be:

- approximately \$4 million, if a bond counsel determines that the project is a qualified tax-exempt project, or
- \$3.6 million, if bond counsel determines that the proposed convention center bonds are taxable.

The imposition of a 10-year limit on the lodging surcharge greatly impacts the ability of a municipality to bond finance the entire project. If the lodging surcharge were imposed for a 20-year period, then 20-year bonds could be issued for the project. In today's interest rate environment, the estimated project size available from bond proceeds would be:

- approximately \$6.5 million, for a tax-exempt project, or
- \$5.4 million, for a taxable project.

#### **TECHNICAL ISSUES**

The bill needs an effective date to correspond with a full year of revenue collection and distribution in FY02.

#### **OTHER SUBSTANTIVE ISSUES**

Because the costs of a convention center project would likely exceed the revenue stream available from the lodging surcharge to support bond financing, a municipality may request capital outlay funds for all or a portion of its project.

AW/njw:ar