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FISCAL IMPACT REPORT

SPONSOR Larranaga DATE TYPED 02/16/05 HB 631

SHORT TITLE Private Go Bond Sales To NMFA SB _____

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
NFI	NFI			

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)

New Mexico Public Education Department (PED)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 631 excludes the private sale of general obligation bonds by qualified local governments to the New Mexico Finance Authority. Current NMFA statutes state that local governments may fulfill their obligation to NMA by the issuance of bonds. House Bill 631 would disallow general obligation (GO) bonds from being used by local governments to satisfy debt owed to NMFA.

Significant Issues

DFA notes that, currently, NMFA provides low interest loans to local governments to finance its public projects. If GO bonds are excluded as a means of payment to NMFA, local governments will be forced to fund their GO bond projects by way of traditional banking (at 8 to 9 percent interest rates). DFA cautions that the provisions of this bill would severely hurt small school districts, as these are entities that utilize NMFA because of their affordable low interest rates and flexible payment options.

According to information provided by NMFA, the NMFA has been able to purchase GO bonds through a negotiated sale process since 1992. To date, GO bond purchases represent approximately 8 percent of loan activity through the Public Project Revolving Fund (PPRF). NMFA notes that in 2004 there were 41 GO bonds issued in New Mexico totaling \$215 million. Of these 41 transactions, NMFA was involved in 13 deals, totaling \$27 million.

PERFORMANCE IMPLICATIONS

PED cautions that House Bill 631 would reduce the number of lenders available to school districts and impact the borrowers' ability to negotiate for the purchase of their GO bonds. This may have a negative impact on the total cost of the bond issuance.

FISCAL IMPLICATIONS

There is no significant fiscal impact to state or local government revenues.

OTHER SUBSTANTIVE ISSUES

NMFA notes that it is able to negotiate the purchase of GO bonds with local governments, which allows GO bond issuers to benefit from the PPRF program. These benefits include below market interest rates for entities with low median household incomes, AAA-insured interest rates set monthly and fixed for 90 days, payment of costs of issuance, and ability to pre-pay without penalty after the first year. NMFA cautions that by changing the PPRF, NMFA's borrowers may surrender the benefits of their GGRT and of the pooled loan program, namely the efficiencies associated with pooling several small loans.

OPJ/lg