

Synopsis of Bill

The Senate Finance Committee Substitute for Senate Bill 935 authorizes the New Mexico Finance Authority (NMFA) to issue additional revenue bonds for the University of New Mexico Hospital (UNM) and the Cancer Research and Treatment Center and to issue bonds for improvements to certain Department of Health (DOH) facilities.

Significant Issues

SFCS/Senate Bill 935 authorizes the New Mexico Finance Authority to issue revenue bonds with a term of up to 20 years for an issuance of no more than \$15 million to supplement the proceeds of previously authorized bonds for this project (\$50 million was issued in 2004, with another \$10 million authorized and expected to be issued in 2007). The net proceeds of the bond are appropriated to the Health Sciences Center to design, construct, equip and furnish additions and improvements to the UNM Hospital and the Cancer Research and Treatment Center (CRTC). The current 14.52% distribution of cigarette tax to NMFA for CRTC is pledged as the revenue stream to repay bond holders as well as for all related costs associated with the bond issuance. The bill authorizes NMFA to secure the additional bonds by a pledge of funds from the public project revolving fund (PPRF) with a lien priority on the PPRF as determined by NMFA.

In addition, the bill authorizes NMFA to issue revenue bonds in an amount not to exceed \$40.5 million for improvements to DOH facilities for the following amounts and locations: 1) \$500 thousand for Turquoise Lodge; 2) \$12 million for Southern New Mexico Rehabilitation Center; 3) \$8 million for Fort Bayard Medical Center; 4) \$15 million for the Las Vegas Medical Center; and 5) \$5 million for the New Mexico State Veterans' Home. The current 6.11% distribution of cigarette tax to NMFA, and if not used for debt service to the capital program fund, approximately \$3.7 million annually, is pledged for repayment of the bonds.

A major component of DOH's strategic plan is "to provide for a safe and comfortable environment for quality patient care." Aging and deteriorating buildings have made it increasingly difficult for DOH to carry out its mission, and recent inspections by the Licensing and Certification Survey organization and the Joint Commission on Accreditation of Health Care have resulted in citations and deficiencies that could jeopardize accreditation at most of the facilities. Results of an independent assessment indicate a need of approximately \$55 million for repairs and upward of \$120 million for replacement costs.

FISCAL IMPLICATIONS

This bill relates to revenue and bonding components of legislation enacted in Laws of 2003 (Chapter 341), including cigarette tax increases. Current beneficiaries of the cigarette tax distribution are held harmless. The credit enhancement account is a contingency if cigarette tax revenues decline and impact the state's ability to service the authorized bonds. The amount of the credit enhancement account that is not used to service bonds will be deposited monthly in the general fund. Upon repayment of the authorized bonds, the distribution of cigarette tax to NMFA for the UNM Hospital and Cancer Research and Treatment Center and DOH facilities would be redirected to the general fund.

The bill also increases the bond maturities of authorized bond issuances from 15 to 20 years. This 5 year increase should allow an additional \$15 million to occur without any new or existing tax increases.

The 6.11% distribution, under criteria used to issue the \$50 million of publicly marketed bonds issued on behalf of the UNM health facilities in 2004, would not be sufficient to meet debt service on \$40.5 million of cigarette tax bonds authorized by this bill. Under the previous bond structure, the NMFA assumed a 3% decline of cigarette tax receipts available to pay bondholders and provided for ample revenue coverage in the later years. Under the structure allowed by this bill, the bond holders could not expect such coverage on the \$40.5 million of bonds. Additionally, the 15.95% cigarette tax distribution used as credit enhancement would be required as a contingency fund on as much as \$115.5 million in cigarette tax bonds. Assuming the 3% decline, this credit enhancement would likely be used in the later bond years to meet debt

Lastly, the authorization contained in this bill to additionally secure the authorized cigarette tax bonds with a lien of the Public Project Revolving Fund would need to be exercised to issue any more than approximately \$25 million in current interest rate environments.

As provided by NMFA, the following is the current distribution of Net Cigarette Tax Receipts:
Distribution of Net Cigarette Tax Receipts
August 2003 Through July 2004

<u>Entity/Fund</u>	<u>% Distribution</u>	<u>FY 2003-04 Distribution⁽¹⁾</u>
County and Municipality Recreation Fund	1.36%	\$ 828,638
County and Municipal Cigarette Tax Fund	2.72%	1,657,275
UNM Cancer Research & Treatment Center	1.36%	828,638
NMFA (Operating Expenses)	2.04%	1,242,957
NMFA (UNM Health Sciences Center)	14.52%	8,846,926
NMFA (Dept. of Health facilities)	6.11%	3,722,777
NMFA (Credit Enhancement Account)	15.95%	9,718,214
State General Fund	<u>55.94%</u>	<u>34,083,817⁽²⁾</u>
Aggregate Receipts Collected	100.00%	\$ 60,929,241

⁽¹⁾ Numbers do not add due to independent rounding.

⁽²⁾ Includes miscellaneous amounts paid as a result of out-of-State stamping privileges and consumption taxes.

Source: Taxation and Revenue Department.

OTHER SUBSTANTIVE ISSUES

In 1993, the Legislature authorized NMFA to sell \$6 million in revenue bonds to plan, design construct and equip an addition to the University of New Mexico Research and Cancer Center. The Legislature dedicated 7.125% of cigarette tax receipts, exclusive of penalties and interest, for the repayment of the revenue bonds. In 1998, the Legislature authorized NMFA to issue up to \$4 million in bonds payable from the Public Project Revolving Fund for the purpose of acquiring, constructing, equipping or improving Bratton Hall at the UNM Law School. In August 1998, the NMFA board approved a \$4 million financing package for the UNM Law School. The package included \$2 million in cash from cigarette tax revenue dedicated to NMFA bonds issued to finance the UNM Cancer Center project but which had not been used to pay debt service. The

package also included the issuance of approximately \$2.06 million in bonds backed by available cigarette tax revenues and the Public Project Revolving Fund.

In 2002, the Legislature authorized NMFA to make a \$4 million grant from NMFA's 2.04 % cigarette tax distribution intended for administrative costs (approximately \$1.2 million) for the UNM Law Library project. Because NMFA will be paying debt service on the 2002 UNM Law Library project, NMFA must have access to its administrative reserve to enable it to meet debt service in the later years.

In 2003, distributions authorized for the UNM Hospital and the Cancer Research and Treatment Center at the UNM Health Sciences Center and to the credit enhancement account were added by the Legislature and NMFA was authorized to issue \$60,000,000 in bonds to finance the UNM Health Sciences Center Project. The Legislature specified that the university distribution and the credit enhancement distribution were appropriated to be pledged irrevocably for the payment of principal, interest, and any premium on the bonds. The university distribution is to be deposited into a separate fund or account of the NMFA, which is held by the trustee under the indenture as the "UNM Health Sciences Center Project Revenue Fund". The credit enhancement distribution is required to be deposited each month in the credit enhancement account held by the NMFA.

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