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

SPONSOR Maestas **ORIGINAL DATE** 02/14/13 **LAST UPDATED** 03/05/13 **HB** 503/aHJC

SHORT TITLE GO Bond Negotiated Sales & Interest Rates **SB**

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Nonrecurring**	**Fund Affected**
FY13	**FY14**	**FY15**		
(See Fiscal Issues)				

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Finance and Administration (DFA)
New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of HJC Amendment

The House Judiciary Amendment requires that, when bonds are sold at a negotiated sale, the terms of the bonds and comparable sale results for similar bonds must be presented at a public meeting of the governing body of the municipal corporation.

The amendment also defines "negotiated sale" as a sale of the bonds to investors by a bond underwriter or a private placement of the bonds with a bank, financial institution, state instrumentality or other person, with interest rates, maturity dates and other terms that are satisfactory to the municipal corporation.

Synopsis of Original Bill

House Bill 503 amends the statutes pertaining to the finances of counties, municipalities and school districts to allow that municipal bonds may be offered and sold at a negotiated sale on terms determined by the municipal corporation. Current law defines municipal corporations as counties, school districts, cities, towns and villages, and requires these entities to sell bonds at public sale.

The bill also moves designation of interest rates from Section A to a new Section D and removes exception language. The bill does not define negotiated sale.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends (June 14, 2013).

FISCAL IMPLICATIONS

According to the NMFA, some evidence exists that public competitive sales achieve better pricing than do negotiated sales, and that there is a cost to the issuer by not issuing competitively. The DFA also adds that negotiated sale may increase certain costs of issuing bonds versus competitive sale, but the Department cannot estimate any cost differential with certainty. The DFA notes that, if negotiated sales are successfully used to decrease interest payments on these types of bonds, the issuer would benefit from lower cost of borrowing.

SIGNIFICANT ISSUES

The DFA reports there are pros and cons associated with both competitive bond sales and negotiated bond sales, and either method of sale may be more or less appropriate for a particular issuance.

In a competitive bond sale, the issuer publishes advance notice of the sale date and certain parameters for the sale (interest rates, maturities, etc.). Then, on the date of the bond sale, the issuer accepts bids from various underwriters who wish to purchase the bonds. The bond sale is typically finalized with the underwriter whose bid has the lowest true interest cost (the lowest cost of borrowing). Benefits of competitive sale are that the issuer can transparently demonstrate that their cost of borrowing is the lowest, most competitive cost available as of the timing of the sale. However, the timing of a competitive bond sale is less flexible because of notice requirements for the sale as well as for notice of an Open Meeting. For issuers of "plain vanilla" bonds that enter the market frequently and have a strong credit background, competitive sales may be most appropriate. As a regular issuer of highly-rated and "plain vanilla" bonds, the State Board of Finance always issues its bonds by competitive sale.

In a negotiated sale, the issuer selects an underwriter or team of underwriters (typically through issuance of a Request for Proposals) before the bond sale and negotiates the interest rate, maturities, etc. with the underwriter(s). The timing of a negotiated bond sale is more flexible, which allows the issuer to pinpoint the sale to a date where market conditions are most beneficial. For smaller issuers who may not access credit markets frequently or do not have a strong credit history, negotiated sales can allow the issuer to do one-on-one outreach to underwriters to assure them of the credit quality of their bonds, thereby lowering the cost of borrowing.

Under the existing act, the NMFA is the exception that allows GO bonds to be placed other than by a public sale. The NMFA will still be an option under this bill and will still likely provide the best pricing that will be available to most GO issuers. The NMFA sells its bonds competitively as AAA rated bonds and most GO issuers in New Mexico are rated at least marginally lower. Thus, the bill should have relatively limited impact on the NMFA, which in any event encourages borrowers to achieve the lowest financing costs possible whether with the authority or by other means.

PERFORMANCE IMPLICATIONS

The DFA notes that municipal corporations provide their general obligation bond amortization schedules to LGD, who sets a property tax mill levy for the entity as part of the annual rate setting practice. The bill will not have an administrative impact on the LGD or the DFA.

PvM/svb:blm