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

SPONSOR Rue **ORIGINAL DATE** 2/24/15 **LAST UPDATED** **HB**

SHORT TITLE Remittance of Governmental Gross Receipts **SB** 635

ANALYST Kehoe

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**		
	($17,500.0)	($17,850.0)	Recurring	Public Project Revolving Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total			($2,500.0)	($7,500.0)	Recurring	Public Project Revolving Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates House Bill 396

SOURCES OF INFORMATION
LFC Files
New Mexico Finance Authority (NMFA)
New Mexico Municipal League (NMML)

SUMMARY

Synopsis of Bill

Senate Bill 635 amends provisions within the New Mexico Finance Act to provide for changes to the public project revolving fund program established within the Act and provides for a technical amendment to change the “water and wastewater grant fund” to the “local government planning fund.” The bill requires that 65 percent of any governmental gross receipts tax (GGRT) balances received by the New Mexico Finance Authority (NMFA), after all obligations have been met and within 60 days following the authority’s fiscal year, shall be remitted to the Taxation and Revenue Department for refund to each agency, institution, instrumentality and political subdivision of the state that paid GGRT in that fiscal year.

FISCAL IMPLICATIONS

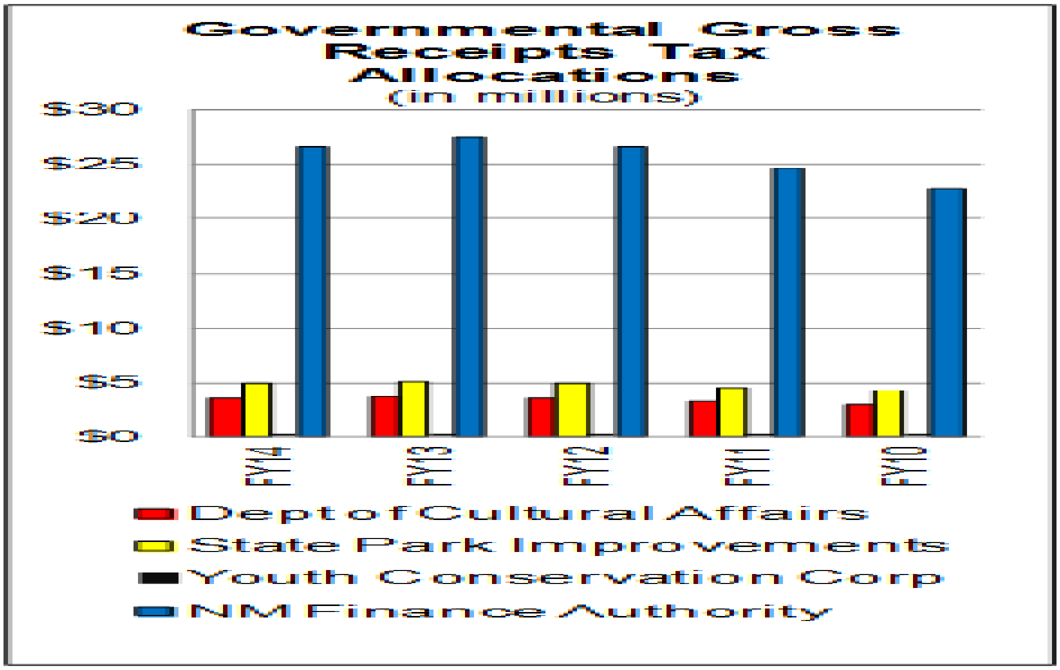
The public project revolving loan fund (PPRF) is capitalized by an annual distribution of 75 percent of the net revenue of the state's GGRT—$28.5 million in FY14, and is the most significant source of funding for infrastructure loans made by NMFA. The funds accrued from GGRT collections and loan repayments to PPRF not needed to pay debt service on bonds are placed in interest-bearing reserve accounts, approximately $26.5 million in a contingent liquidity account fund and $30.2 million in a "common debt service reserve fund" for only the senior lien PPRF loan portfolio.

According to NMFA, remitting all or any portion of the 65 percent of GGRT to the entities paying GGRT would have a materially negative impact on the PPRF and the authority's ability to fund loans to New Mexico communities, especially communities with limited local economies—approximately $29 million less for loans. As provided by NMFA, the following summarizes the negative fiscal impact of the impact of this bill over 25 years:

	With GGRT	**Without GGRT**
Projected PPRF Bonding Capacity	$2,000,000,000	$2,000,000,000
Flow Through of Bonded Interest Earnings	285,000,000	285,000,000
GGRT New Lending Capacity	555,000,000	
Flow Through of GGRT Interest Earnings	170,000,000	
Total	**$3,010,000,000**	**$2,285,000,000**
Average Annual New Lending Capacity	**$120,400,000**	**$ 91,400,000**
25 Year Loss of Capacity	**$725,000,000**	**24%**

The above summary assumes "AAA rates, GGRT growth at two percent annually, and the 65 percent portion of GGRT receipts are relent by NMFA through the PPRF as 20 year loans." NMFA states this bill would reduce the PPRF's overall capacity to lend by approximately 24 percent and would reduce the loans to "disadvantaged" entities from PPRF by approximately 50 percent to 75 percent.

In the first three quarters of 2014, the NMFA closed 43 loans for $107.9 million. The cash balance for loans from PPRF as of September 30, 2014, was $24.3 million. The following graph demonstrates GGRT allocations to PPRF to date:



SIGNIFICANT ISSUES

The New Mexico Finance Authority (NMFA) was created in 1992 as a governmental instrumentality for the purpose of coordinating and facilitating the planning and affordable financing of state and local capital projects for qualified entities in New Mexico. As a nongovernmental entity, the NMFA is able to use financing mechanisms to leverage and maximize the state's capital investments in state and local projects.

NMFA currently administers 11 active finance programs, but the most significant infrastructure loan program is the public project revolving loan fund (PPRF) capitalized from an annual distribution equal to 75 percent of the net revenue of the state's governmental gross receipts tax (GGRT). NMFA leverages GGRT capital in PPRF, makes loans, and replenishes PPRF by issuing bonds. The fund has evolved into a broader financier of state and local government credits for providing financial assistance to a greater diversity of entities and credits, thus helping PPRF attain higher bond ratings and lower costs of issuance and, thereby, allowing NMFA to offer a variety of program enhancements to its borrowers.

In July 2014, Standard & Poor's Rating Agency maintained a previous 'AAA' rating to 2014B senior-lien PPRF bonds and affirmed its 'AAA' rating on senior-lien bonds outstanding and its 'AA+' rating on subordinate-lien bonds. The Moody's Rating Agency assigned an 'Aa1' rating to senior lien PPRF bonds, series 2014B totaling $57.1 million. In the same period, Moody's maintained the 'Aa1' senior and 'Aa2' subordinate lien PPRF ratings on $669.2 million and $330.1 million in previously issued debt, respectively.

According to NMFA this bill would fundamentally change the current PPRF loan program, would likely lead to a reduction in NMFA staffing, including coverage of the state by NMFA lending officers. The least credit-worthy municipalities in New Mexico, and especially communities that are now able to borrow at subsidized disadvantaged interest rates, would be impacted the most by this bill. According to NMFA, "the proposed remittance of the 65 percent portion of GGRT to the Taxation & Revenue Department for allocation back to the entities paying GGRT would not impair existing bonds, but the reduction in GGRT available to the PPRF is likely to impair the PPRF ratings. Lower ratings would result in higher interest costs for the PPRF to borrow, resulting in a reduction in the $2 billion in projected capacity. Higher interest costs for the PPRF would result in higher interest costs for New Mexico communities borrowing from PPRF.

DUPLICATION

House Bill 396 duplicates this bill in its entirety.

OTHER SUBSTANTIVE ISSUES

Previously known as the water & wastewater planning grant fund, the local government planning fund was created to provide grants to qualified entities to plan and estimate the costs of implementing the most cost effective means to meet water and wastewater public project needs and to assist in paying for the administrative costs of the program. Grants from the fund do not require legislative authorization. However, the New Mexico Finance Authority Legislative Oversight committee is empowered to monitor and oversee the operations of the authority.

Advancing funds to entities for the development of preliminary engineering reports provides for the proper planning, especially for water and wastewater infrastructure and provides the necessary information for entities applying for federal funds.

LMK/bb