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## FISCAL IMPACT REPORT

**SPONSOR** Lundstrom/Sanchez      **ORIGINAL DATE** 6/18/2020  
**LAST UPDATED** 6/19/2020      **HB** 2/aHAFC

**SHORT TITLE** Bond Issuance and Fund Transfers      **SB** \_\_\_\_\_  
**ANALYST** Jorgenson/Kehoe/  
Iglesias/Olsen

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
(\$10,866.0)		Nonrecurring	General Fund (Capital Voids)
(\$2,400.0)		Nonrecurring	General Fund (Border Authority)
(\$75,000.0)		Nonrecurring	General Fund (Transportation Projects)
\$140,000.0		Nonrecurring	Severance Tax Bonding Fund (Statewide Capital Projects and STB Earmarks)
\$55,000.0		Nonrecurring	Severance Tax Bonding Fund (Public School Capital Outlay)
\$75,000.0		Nonrecurring	Transportation Project Bonds

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
\$33,550.0		Nonrecurring	General Fund (Various Sweeps)
(\$33,550.0)		Nonrecurring	Various Fund Sweeps
\$2,000.0		Nonrecurring	Appropriation Contingency Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		(\$16,674.4)	(\$16,674.4)	(\$33,348.8)	Recurring	Public School Capital Outlay Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

## SOURCES OF INFORMATION

LFC Files

## SUMMARY

### Synopsis of House Appropriations & Finance Committee Amendment

The House Appropriation and Finance Committee Amendment proposes to void the unexpended or unencumbered balances of a 2019 \$650,000 appropriation to the Board of Regents of Eastern New Mexico University for construction of a president's residence and public event venue in Portales in Roosevelt County.

The amendment further allows the proposed voids in Section 2 to proceed if a grantee certifies to the Secretary of the Department of Finance and Administration that the grantee can incur a substantial binding obligation and expend at least 5 percent of the appropriation for the project within 90 days of the effective date of this Act.

### Synopsis of Original Bill

House Bill 2 contains provisions increasing nonrecurring revenues by \$124.2 million, recurring savings of \$16.7 million, and authorizing \$195 million in additional bonding capacity for capital projects.

The nonrecurring general fund savings are made up of \$10.9 million in capital outlay project voids, a \$2.4 million sweep of funds from the border authority, a reduction of \$75 million from transportation projects authorized in 2019, and various other fund sweeps totaling \$33.6 million. Additionally, \$2 million in funds tied to disaster declarations made prior to July 1, 2015 are swept to the appropriation contingency fund.

Recurring savings are generated through the repeal of House Bill 254 of 2020 which was anticipated to increase public school capital outlay expenditures by \$16.7 million.

Finally, this bill includes authorization to increase severance tax bonding by \$140 million to pay for statewide capital outlay projects and STB earmarks for water, colonias, and tribal projects already authorized, provides up to \$55 million for additional public school capital outlay, and provides authority for the New Mexico Department of Transportation (NMDOT) to issue \$75 million in bonds to offset funds swept.

This bill contains an emergency clause and would become effective immediately upon signature by the governor.

## FISCAL IMPLICATIONS

*Sections 1-2 and 4-8.* The appropriation table details the reductions to general fund expenditures contained in the bill.

- \$10.9 million from 69 capital projects are voided;
- \$2.4 million from an appropriation to the border authority to plan, design and construct a road between Santa Teresa and Sunland Park in Dona Ana county;
- \$75 million from a nonrecurring general fund appropriation to NMDOT for

transportation projects;

- \$33.6 million from transfers to the general fund from various state funds;

**Section 3.** Due to current municipal bond market conditions, the Board of Finance (BOF) is anticipating it is unlikely to issue a long-term severance tax bond in FY20. The BOF still expects to issue a senior short-term note, estimated at \$167.3 million, but that issuance would be insufficient to fund the \$352.3 million in STB projects authorized in Chapter 81 of the 2020 session and other authorized but unissued projects.

Section 3 allows the BOF to “sweep” the balance of the severance tax bonding fund – less the necessary amounts for the next two semiannual debt service payments – to provide an additional \$140 million in senior short-term notes in an attempt to fund as many of the authorized projects as possible. This action would prevent a transfer from the bonding fund to the severance tax permanent fund at the end of FY20. As outlined in the table below, the additional issuance will bring the total estimated senior note proceeds to \$307.3 million in FY20. Water projects, tribal infrastructure projects, and colonias infrastructure projects will receive their normal statutory percentages of the proceeds from the senior notes, totaling 18 percent (or about \$55.3 million combined) of the issuance. The remaining senior STB capacity will be used for authorized projects that are sufficiently developed and can proceed to contract in a reasonable time.

**FY20 Capital Outlay Estimate**

<b><u>SOURCES</u></b>	<b><u>Current Law</u></b>	<b><u>This Bill</u></b>	<b><u>Difference</u></b>
Senior Long-Term Bonds	\$ -	\$ -	\$ -
Senior Sponge Notes	\$167.30	\$167.30	\$0.00
Funding from June Super Sweep (per this bill)	\$ -	\$140.00	\$140.00
<b>Subtotal Senior STB Issuance</b>	<b>\$167.30</b>	<b>\$307.30</b>	<b>\$140.00</b>
<b><u>USES</u></b>			
2020 Appropriated Projects (Chapter 81)	\$352.30	\$352.30	\$0.00
9% of Senior STB for Water Projects	\$15.10	\$27.70	\$12.60
4.5% of Senior STB for Colonias Projects	\$7.50	\$13.80	\$6.30
4.5% of Senior STB for Tribal Projects	\$7.50	\$13.80	\$6.30
Authorized but Unissued STB Projects*	\$0.10	\$0.10	\$0.00
Reassigned STB Projects**	\$0.20	\$0.20	\$0.00
<b>Total STB Appropriations</b>	<b>\$382.70</b>	<b>\$407.90</b>	<b>\$25.20</b>
Available STB Funding Over (Under) Appropriations	<b>(\$215.40)</b>	<b>(\$100.60)</b>	

Source: Department of Finance and Administration and LFC Files

Section 3 also provides for up to an additional \$55 million in supplemental short-term notes to be issued in FY20 for public school capital outlay projects.

**Section 9.** The \$2 million in transfers to the appropriation contingency fund represents stale unreconciled cash balances or reversions for executive order funding issued 5 to 10+ years ago to the homeland security and emergency management department.

**SIGNIFICANT ISSUES**

**Section 1.** The \$10.9 million in revisions of unencumbered and unexpended balances from 70 capital project appropriations are based on criteria developed in collaboration with the Legislative Finance Committee (LFC) staff and the Department of Finance and Administration (DFA) staff. The criteria eliminate projects from the 2019 general fund appropriations with no expenditures, notices of obligation, or encumbrances. Projects were retained if they were funded by state, local, or federal funds, or a combination thereof, to avoid the loss of matching funds. Projects were retained if they were tied to 2020 and previous year funding. Projects were retained if they were included in the May 6<sup>th</sup> or May 8<sup>th</sup> executive directives.

**Section 2.** In 2019, \$5.4 million was appropriated for a road between Santa Teresa and Sunland Park in Dona Ana county. Currently, \$3 million of this amount is encumbered.

**Section 3.** The bill authorizes the issuance of short-term severance tax bonds (“sponge bonds”) in fiscal year 2020 over and above the amount that is typically allowed in statute to intercept the amount that would otherwise transfer to the severance tax permanent fund in fiscal year 2020. This practice has sometimes been referred to as a “super sweep.” The proceeds of the sponge bonds would be appropriated for STB projects authorized in the 2020 session (Chapter 81) and other authorized but unissued STB projects from 2018 and 2019. The bill allows water, tribal, and colonias projects to benefit from the proceeds of the super sweep. Additionally, the bill authorizes up to an additional \$55 million in supplemental severance tax bonds to be issued for public school capital outlay projects.

**Sections 4-7 and 10.** The 2019 General Appropriations Act included \$250 million in nonrecurring general fund appropriations for major investment projects listed in Section 9 of that Act. Of this amount, only \$13 million was expensed or encumbered. The bill would reduce this appropriation amount by \$75 million and allow NMDOT to issue bonds in the same amount for the projects listed in Section 9 of the 2019 General Appropriations Act.

Bonding for this initiative would be issued using existing authority created under Governor Richardson’s Investment Partnership (GRIP) of 2003. The GRIP legislation authorized NMDOT to issue \$1.6 billion in bonds. The New Mexico Finance Authority estimates \$234.6 million has not been issued. By amending the GRIP statutes in Sections 4 through 6 of this legislation, NMDOT will be able to issue \$75 million in bonds beginning in FY23.

**Section 8.** The transfers to the general fund are detailed in the table below:

**Detail of Section 8 Fund Sweeps**  
(in thousands)

Consumer Settlement Fund	\$1,000.0
Local DWI Grant Fund	\$1,000.0
Enhanced 911 Fund	\$2,000.0
Public Liability Fund	\$4,000.0
Public Property Reserve Fund	\$1,000.0
Youth Conservation Corps Fund	\$1,000.0
Medical Cannabis Fund	\$750.0
Corrective Action Fund	\$2,000.0

Rural Infrastructure Revolving Loan Fund	\$4,000.0
College Affordability Endowment Fund	\$2,000.0
Student Financial Aid Special Programs Fund	\$2,000.0
Local Government Planning Fund	\$2,000.0
Water Project Fund	\$5,300.0
Drinking Water State Revolving Loan Fund	\$2,500.0
Primary Care Capital Fund	\$3,000.0
<b>Total Sweeps</b>	<b>\$33,550.0</b>

*Section 11.* Section 11 repeals Laws 2020, Chapter 64 (House Bill 254), which changes the Public School Capital Improvement Act (also known as SB 9) funding formula to increase public school capital outlay funding distributions for schools. The law would have increased the state match to school districts imposing a 2-mill levy for capital improvements, particularly schools with large enrollments or high populations of at-risk students.

CJ/LK/DI/SO/al