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Revenue Bonds Allow ABQ Leaders to Bypass Voters.

Albuquerque taxpayers have borrowed \$63 million over the past two years to build pickleball courts, baseball fields and a new bus system down the middle of Central Avenue.

The package of goodies also includes a new Route 66 visitor center, a library and other projects.

It's a shadow bond program of sorts, allowing Mayor Richard Berry and city councilors to borrow money without the restrictions imposed by the traditional method of financing big capital projects – general obligation bonds, which require voter approval, a shorter borrowing period and a lengthy planning process.

The new financing mechanism centers on revenue bonds, or debt that's repaid with gross receipts taxes. It offers the mayor and council far more flexibility in paying for big capital projects.

There's no need for an election if seven of nine councilors agree to authorize the bonds. And they don't have to repay the debt as quickly as they do for general-obligation bonds.

Perhaps best of all for the mayor and council, they can pick and choose what to fund, bypassing the complicated requirements for the traditional bond program – where policies require certain percentages of the program to be dedicated for specific purposes, such as energy conservation and public art.

Berry has made the revenue bond program a centerpiece of his administration.

It's necessary, he said, because past administrations at City Hall siphoned away money that would have otherwise supported the traditional bond program – \$48 million a year, he estimates, in lost financing for capital projects.

That meant finding a new way to pay for “game-changing projects” that make Albuquerque a vibrant city to live in, Berry said in a recent interview.

“I like the agility,” he said. “I think it's turned out to be a good hybrid system.”

How it works

For a government agency, selling bonds is like taking out a loan – the way a family might take out a mortgage to buy a house. The money must be repaid with interest.

As part of the deal, the city can pledge to make the payments with income from a certain revenue source, such as gross receipts taxes. It's a bit like showing your paycheck when you get a mortgage.

The city of Albuquerque has an excellent credit rating and can generally borrow money at a much lower interest rate than a private company could.

When the city authorized the sale of about \$18 million in gross receipts tax revenue bonds this year

to finance a variety of projects – including the baseball complex – it got an interest rate of about 2.5 percent. The city plans to make annual payments on the bonds through 2038, or about 22 years.

Going too far?

Tapping into gross receipts taxes – a critical revenue source for the city’s operating budget – to issue bonds has won bipartisan support at City Hall. Berry is a Republican, but Democrats and Republicans alike have embraced the chance to find money for their favored capital projects.

But some councilors say they fear going too far. About \$7.5 million is now tied up each year to make payments on the revenue bonds. That money would otherwise support Albuquerque’s \$526 million general operating budget.

The capital projects built with that money will generally squeeze the operating budget in other ways, too. It takes employees, of course, to operate a new library.

“We were criticized for moving (money) from capital to operating in the past,” said City Council President Isaac Benton, a Democrat and former chairman of the council’s budget committee. “I think perhaps the pendulum has swung too far in the other direction now.”

Benton is the only current member of the council who has offered some resistance to the trend toward revenue bonds. In 2012, he and former Councilors Debbie O’Malley and Rey Garduño, all Democrats, refused to authorize up to \$50 million in bonds for the reconstruction of Paseo del Norte unless it was sent to voters.

The proposal did end up going to voters that year and passed by a wide margin.

But the remaining \$63 million in projects financed through revenue bonds have been authorized by the mayor and council without a public election. That’s why a controversial project like Albuquerque Rapid Transit – the new bus system being built on Central Avenue – didn’t require direct voter approval. About \$13 million in revenue bonds makes up the bulk of the city’s contribution to the project, which is largely funded by the federal government.

Meanwhile, the traditional general-obligation bond program – which is backed by property taxes – goes to voters every two years as a series of ballot questions broken up broadly by topic: for library materials, for streets and so on.

Opponents of Albuquerque Rapid Transit have pushed unsuccessfully for an election on the project. About 76 percent of voters last year responded to an advisory question on the ballot by saying the city should schedule an election on ART, but the results aren’t binding.

Berry said that, in general, the ability to avoid an election has helped the city move quickly when needed to secure matching funds from other governments.

And because seven of nine councilors and the mayor must agree, officials say, the public is protected from frivolous projects.

“I think we have a system of checks and balances that people can be comfortable with,” Berry said.

He would veto the legislation, he said, if he felt councilors had gone too far in doling out pork to their districts.

‘A grab bag of sorts’

The level of scrutiny isn't quite the same as required under the traditional bond program, in which a broad outline of what's to be funded is subject to Environmental Planning Commission and budget hearings.

The revenue bonds can be more of a free-for-all, each councilor fighting for projects in his or her district.

"The nature of these things is they become a grab bag of sorts once they're opened up for discussion," Benton said.

He added that he fights for his district, too, just as other councilors do.

The largest single project funded so far was the reconstruction of the Paseo del Norte and Interstate 25 interchange. Voters authorized up to \$50 million in bonds, but the city ended up borrowing only \$42 million.

The second biggest is \$21 million for a complex of baseball and softball fields on the West Side, near the new Albuquerque Public Schools stadium. That project is aimed at boosting the economy by luring out-of-state teams for tournaments, and it was a factor in landing the 2019 National Senior Games for Albuquerque.

The next biggest project is \$13 million for Albuquerque Rapid Transit. The remaining projects generally get \$2 million or less.

"I don't mind a few projects here and there that aren't big game changers," the mayor said. "But we shouldn't get into the trend of that."

Stimulating the economy

City Councilor Ken Sanchez, a Democrat and an accountant, said the city must take care to avoid going too far in moving more of its revenue back into capital projects. The operating budget is already under stress, he said, as the state reduces payments to cities and counties to help offset a package of tax cuts.

Nevertheless, Sanchez said, spending on construction helps put people to work.

"In this economy," he said, "that's a decision we as policymakers made to keep people working and keep jobs here. We had to do something to help stimulate the economy."

The consequences will have long-lasting effects on the city budget. The last of the revenue bonds - a \$45 million package that helped pay for the baseball fields, Albuquerque Rapid Transit and other projects - won't be paid off until 2038, a 22-year term.

The annual payment is somewhere in the neighborhood of \$2.9 million.

The mayor said it's worth it. Even with \$7.5 million now going to pay off revenue bonds altogether, that's far from the \$48 million a year in property tax revenue that was switched from capital to operations before Berry took office in late 2009.

"When the decision was made to shift those property tax mills, it basically robbed our ability to have a thriving" bond program the traditional way, Berry said.

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