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FISCAL IMPACT REPORT

ORIGINAL DATE 03/16/09
LAST UPDATED 03/19/09 **HM** 118/aHBIC

SPONSOR Arnold-Jones

SHORT TITLE Economic Development Tool Effectiveness **SB** _____

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	NFI			

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of HBIC Amendment

The House Business and Industry Committee amended House Memorial 118 to include the interim New Mexico Mortgage Finance Authority oversight committee on the distribution list for the memorial and to require that copies of the findings of the Revenue Stabilization and Tax Policy oversight committee be provided to each member of the legislature.

Synopsis of Original Bill

House Memorial 118 requests the interim Revenue Stabilization and Tax Policy committee (RSTP) be tasked with the following:

- Review and evaluate fiscal impact of tax incentives, special districts, and bonding authorities that are for economic development
- Determine the effectiveness in terms of job creation and tax base expansion of tax incentives, special districts and bonding authorities
- Review all of the proposals from this session to identify duplication with existing efforts
- Determine whether current programs have been sound investments
- Assess if economic development tools are encroaching on existing governments' powers
- Compare other states' tools
- Determine the appropriate role for public-private partnerships

HM118 identifies the following as basis for the memorial:

- Adoption of economic development tools on a piecemeal basis
- Lack of study on effectiveness

FISCAL IMPLICATIONS

There is no appropriation or revenue impact.

SIGNIFICANT ISSUES

Currently, there are several economic development tools that have significant fiscal impacts on the state but which are not closely monitored and have not been the subject of any directed study as the memorial would request.

Tax incentives. A recent LFC analysis of 45 tax incentives revealed that only four had specific reporting requirements. The incentives are spread out over different tax programs and so are not reported in an aggregate way. Taxation and Revenue Department (TRD) reports on credits for the personal income and property tax regularly and are beginning to include corporate income tax credits. These are not in one report but separate reports for each program and are not required to be annual reports. Economic Development Department (EDD) reports on the job training program and angel investor tax credit and special programs like the film office programs. There are additional tax credits that go through the New Mexico Finance Authority and incentives provided by the NM State Investment Council. Local governments also use the local economic development act (LEDA) and industrial revenue bonds (IRB).

Special Districts. There are bills before this legislature that authorizes the issuance of bonds for three tax increment for development districts (TIDD), increasing the number of TIDDs to four if passed. There is another bill (HB552) that establishes a new type of district, the infrastructure development zone (IDZ). While there have been numerous presentations by the LFC and DFA regarding TIDDs, there have been no reports created that do a thorough assessment of all of the different types of districts. Currently in statute there are

- Metropolitan redevelopment areas
- Business improvement districts
- Public improvement districts
- Special assessment districts
- Tax increment for development districts

The study should include board governance, imminent domain, and powers of the district, including taxing authority.

Bonding authorities. Currently, there are two authorities that can bond for economic development: NMFA and the Renewable Energy Transmission Authority (RETA). NMFA began as a financing entity for local government projects such as water and waste water projects but has expanded to include the “Smart Money” program and the New Markets Tax Credit program which are special financing mechanisms for economic development purposes. NMFA reports directly to the interim NMFA Oversight committee.

RELATIONSHIP

Relates to HM90 which requests LCS to establish a task force to study special districts.

Relates to HB480 which requires reporting on all economic development incentives including TIDDs.

NF/mt:svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc