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FISCAL IMPACT REPORT

SPONSOR Martinez, K./Papen ORIGINAL DATE 02/04/15
LAST UPDATED 03/18/15 HB 314
SHORT TITLE Create Local Economic Development Fund SB _____
ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
		See Fiscal Implications		General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to HB 312 and SB 160

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 314 creates a nonreverting "local economic development fund," consisting of appropriations made to the fund, income from investment of the fund, and money otherwise accruing to the fund. The Economic Development Department (EDD) shall administer the fund, and money in the fund is appropriated to EDD for projects pursuant to the Local Economic Development Act (LEDA).

FISCAL IMPLICATIONS

The bill prevents appropriations to the newly created fund from reverting to the general fund. Historically, appropriations for LEDA projects revert at the end of a fiscal year; absent language making these appropriations for LEDA projects nonreverting, this bill could create a negative fiscal impact to the general fund if EDD did not use all the funds within a given fiscal year. However, HB 2 includes nonreverting language for the FY16 appropriation, so this would only affect potential future appropriations and related reversions.

SIGNIFICANT ISSUES

Funding for projects pursuant to LEDA provides EDD flexibility to use the dollars as a “closing fund” to close deals and win business relocation projects. The Local Economic Development Act, Section 5-10-1 through 5-10-13 NMSA 1978, allows funding for economic development projects, but the funding can only be used for land, buildings, and infrastructure (with limited exceptions). EDD has discretion to use LEDA funds to upgrade existing infrastructure for startups or existing companies already located in New Mexico or to use the funds to win relocation projects. Legislation enacted in 2013 requires EDD to place clawback provisions into contracts for LEDA funds, requiring proportional payback of funds when companies fail to deliver the contractually-promised economic benefits, such as jobs or payroll.

EDD notes New Mexico often competes for business projects with states that have sizeable closing funds and reports New Mexico needs a comparably sized fund to compete and create more jobs. Some states’ closing funds, including the well-known Texas Enterprise Fund, are nonreverting funds. The companies EDD and its marketing contractor attempt to recruit and retain operate on their own schedules created by market factors, irrespective of a state’s fiscal year, and projects often cross fiscal years.

PERFORMANCE IMPLICATIONS

EDD reports the agency, and its finance development team in particular, relies heavily on funds appropriated for LEDA projects for its performance measures related to job creation. In the first two quarters of FY15, LEDA funds supported the creation of over 2,000 new jobs.

RELATIONSHIP

This bill relates to HB 2, which includes a \$37.5 million nonreverting, nonrecurring special appropriation for LEDA funding. The bill also relates to HB 312 and SB 160, which appropriate \$50 million from the general fund to EDD for LEDA funding. HB 2, HB 312, and SB 160 specify that any unexpended balance at the end of a fiscal year shall not revert.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Currently, funds appropriated for LEDA projects revert at the end of a fiscal year. EDD reports this would force the agency to expend funds on a project it otherwise might not or lose the funds to reversion.

JC/je/aml/bb/je