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

SPONSOR: Aragon DATE TYPED: 3/19/03 HB

SHORT TITLE: Economic Development Finance Act SB 932a/SFC

ANALYST: Smith

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			See Narrative		Statewide Loan participation Fund
					Tax Impact Fund

(Parenthesis ( ) Indicate Expenditure Decreases)
Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

NMFA

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendments make a variety of definitional changes intended to ensure that the procedures for each local government are the same. Additionally, the amendment strips the two appropriations from the bill. Since the financing mechanisms in the original bill are left intact, is unclear how these loan participations and state in lieu of taxes payments would be accomplished.

Synopsis of Original Bill

Senate Bill 932 would team the Economic Development Department with the NMFA to offer a variety of taxable and tax-exempt economic development financing alternatives. Currently, certain municipalities have a distinct advantage in being able to provide taxable and tax-exempt financing.

The EDD and NMFA would undertake economic development financing to help the state in:

- Community Enrichment
- Business Expansion and Retention for Small and Mid-Sized Businesses
- Business Attraction of Mid-Sized and Large Businesses

<u>Significant Issues</u>

The practical effect of this bill is four fold:

1. It allows the NMFA to provide conduit financing to 501 (c)(3) organizations such as the Santa Fe Opera. This allows nonprofits to borrow at tax exempt rates. Types of projects qualifying for this financing include museums, theaters, and other recreational and educational facilities operating as nonprofits. In addition not-for-profit hospitals would also be eligible. Currently, these entities have access to this benefit through local governments only.

2. The NMFA could issue the tax exempt private activity bonds on behalf of small manufacturers. Since the state's allocation of private activity is fixed; small manufacturers would compete against student loans and single family housing for this valuable federal subsidy. The state board of finance is responsible for allocating this subsidy.

3. The NMFA would also be permitted to issue industrial revenue bonds (IRBs). IRBs confer an exemption from property taxes and gross receipts taxes on certain equipment. The NMFA would use the recurring general fund appropriation to the tax impact fund to reimburse local governments for lost taxes.

4. The NMFA may purchase loans or participations in loans to eligible entities by banks for projects recommended by Economic Development Department. This amounts to a subsidy for certain favored industries/projects. This would be funded from the public project revolving funded which is ultimately funded by the governmental gross receipts tax

FISCAL IMPLICATIONS

Currently, only local governments have the ability to issue industrial revenues bonds. If this bill resulted in an expansion of this subsidy, the impact to state and local governments could be significant.

ADMINISTRATIVE IMPLICATIONS

It is unclear that the NMFA or the Economic Development Department has the expertise to evaluate the soundness of the bank loans or participations described above. This expertise will have to acquired from a contractor.

OTHER SUBSTANTIVE ISSUES

In other analysis, TRD has made the following general observations about industrial revenue bonds:

"Although local governments have found the bonds to be an important recruiting tool, a number of concerns have been raised about the potential for unintended consequences of widespread use of these incentives:

- By reducing the property tax base of commercial and industrial taxpayers, the remaining property tax burden is shifted to residential property owners;
- By reducing the property tax base, cities and counties are forced to rely more heavily on the gross receipts tax and other revenue sources;
- Although incentives are provided to encourage increased employment in the jurisdiction, companies sometimes are forced to close by economic conditions, with the result that the jobs disappear; and
- Because the bonds provide a tax exemption for the life of the bonds, the tax benefits can outweigh the economic benefits to the jurisdiction granting the tax relief."

SS/yr/njw