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## FISCAL IMPACT REPORT

ORIGINAL DATE 2-8-2006

SPONSOR Garcia, M.H. LAST UPDATED 2-9-2006 HB 720/aHAGC

SHORT TITLE Increase Chile Industry Profitability SB \_\_\_\_\_

ANALYST Dearing

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
	\$140.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico State University College of Agriculture & Home Economics (NMSU)

New Mexico Higher Education Department (NMHED)

### SUMMARY

#### Synopsis of HAGC Amendments

House Agricultural and Water Resources Committee amends this bill, such that:

- 1.) On page 1, line 24, strike “2006” and insert, in lieu thereof “2007”.

Generally, the amendment is intended to increase the time period for program reporting and data interpretation and makes no substantial change on the fiscal impact of this legislation.

#### Synopsis of Original Bill

House Bill 720 appropriates \$140,000 from the general fund to the New Mexico State University Board of Regents in order to increase the profitability and yield of chile and to increase the economic sustainability of the New Mexico chile industry.

## FISCAL IMPLICATIONS

The appropriation of \$140,000 contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2007 shall revert to the general fund.

This request was not on the list of priority projects submitted by NMSU to the New Mexico Higher Education Department (NMHED) for review. It was not included in the Department's funding recommendation for FY07.

## SIGNIFICANT ISSUES

In order to increase the yield and profitability of chile, industry constituents need more efficient methods of containing costs associated with harvesting, as well as farm-level production costs, and similarly must increase subsequent sales of this crop. In increased global competition, the New Mexican Chile industry is facing competitors producing in areas which have substantially reduced labor economics and essentially non-existent environmental regulation. In essence, multi-national firms involved in production will choose to relocate processing facilities in proximity to those global areas having the highest levels of production, in turn bringing their costs of production downward.

Overall, the growth and production of chile in Dona Ana, Luna and Hidalgo counties generates \$418 million in economic activity annually. Crop values are on the range of \$60-100 million annually, depending on production levels and cash price. Production of the crop however, multiplies the economic impact by a factor of four. In total, the chile industry provides 10,000-15,000 seasonal harvesting jobs, and over 5300 permanent jobs, in addition to indirect economic impact. Chile production is both vital economically as well as culturally in New Mexico. Similarly, chile is an integral component in reducing agricultural risks through its role in crop rotation strategies. As chile is elemental in rotation strategies, a reduction in its production can result in an increase in banks' reluctance to provide agricultural loans.

Lastly, tourism and niche product markets are in some part based on cultural links to chile, its production and consumption.

Without a critical mass of local chile production, there is no reason for the chile processing industry to remain in New Mexico. Today more than 70% of the cayenne and jalapeno crops are grown in Mexico. A decade ago most of the chile now imported was available from farms in southern New Mexico. New Mexico industry and agricultural groups and constituents must continue to work diligently if New Mexico communities are to avoid the devastation that results from farms, businesses, jobs and income lost to foreign competition.

Approaches to solve this problem include:

- 1) Improvement of management practices;
- 2) Reduction of costs through harvesting system mechanization;

3) Expansion of market opportunities. The greatest short-term return on investment will come from effectively and efficiently using existing technology and by mechanizing the harvesting and de-stemming of our peppers.

The Agricultural Experiment Station at New Mexico State University maintains departments that include expertise in the agronomic, engineering, and economic issues related to the challenges facing the chile industry in the state. This appropriation could enhance its ability to respond to the specific needs of protecting the chile growing and processing industries in New Mexico.

### **PERFORMANCE IMPLICATIONS**

As stated in the bill, by June 30, 2009, NMSU would submit a program evaluation to the Legislative Finance Committee and NMHED. The evaluation would review the three-year implementation period and provide a detailed account of all benefits to the state.

### **ADMINISTRATIVE IMPLICATIONS**

Please see “Performance Implications”

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

HB411 and SB363 are related in that they propose funding of \$250,000 to allocate to the Board of Regents of NMSU for the New Mexico Department of Agriculture to fund a marketing campaign to promote out-of-state sales of New Mexico-grown chile and related products.

### **TECHNICAL ISSUES**

This bill calls for the addition of expertise in areas of best management agronomic practices, development and testing of mechanical handling equipment, and economic development issues.

### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Without a critical mass of local chile production, there is no reason for the chile processing industry to remain in New Mexico. With much of chile being imported to these production facilities, it is not difficult to imagine that multi-national and non-locally owned companies will evaluate the economics of relocating closer to the source of their raw materials. Losing this signature crop of the state and the economic benefits that accompany it will cause devastation to farms and businesses.

PD/nt