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FISCAL IMPACT REPORT

ORIGINAL DATE 1/19/08

SPONSOR Sanchez, B LAST UPDATED _____ HB _____

SHORT TITLE NMSU Chile Harvesting & Genetic Research SB 60

ANALYST Haug

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|-----------|-------------------------|------------------|
| FY08 | FY09 | | |
| | \$1,000.0 | Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)
New Mexico State University (NMSU)

SUMMARY

Synopsis of Bill

Senate Bill 60 appropriates \$1 million from the general fund to the Board of Regents of New Mexico State University for the College of Agriculture and Home Economics to research mechanical harvesting and genetic engineering of chile.

FISCAL IMPLICATIONS

The appropriation of \$1 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

The HED states that this request was not submitted by NMSU to the New Mexico Higher Education Department for review and is not included in the Department's funding recommendation for FY09.

SIGNIFICANT ISSUES

According to NMSU, the New Mexico chile pepper industry, the state's signature industry, continues to face increasingly intense global competition and is suffering from profound economic decline. What was a \$400 million industry for the State of New Mexico has dropped to under \$325 million and the number of full time, mostly rural jobs this industry provides has declined from 5000 to 4051 in just three short years. U.S. production of chile has remained stagnant due to its higher costs and lack of mechanization, allowing chile imports to grow exponentially and take control of the market. Given the current trends, industry leaders fear we could completely lose the commercial chile industry within 5 years. As these small businesses succumb, the 4051 jobs they provide in our region will also vanish.

The number one priority continues to be to mechanize the chile industry. To remain competitive, the industry needs an investment of \$1 million dollars per year for 4 consecutive years in order to adequately fund engineering research and development as well as breeding and other scientific research that will allow the industry to fully mechanize chile harvesting, cleaning, de-stemming and processing. Plant breeding is an integral part of the mechanization solution because high quality varieties must be developed that are suited to machine harvesting, disease resistance and improved quality and yield.

The New Mexico Chile Association (NMCA) oversaw the allocation of approximately \$1 million for accelerated research in these areas in 2007. In the past several years, marked progress has been made in drip irrigation, increased yields, plant automation and improved varieties. However, there is still significant work to be done to ensure the success of this industry. Besides mechanization solutions, the NMCA is also exploring potential marketing strategies to increase the demand for New Mexico chile and to make the chile industry research and development entirely self-supporting.

Although there is an urgent need for significant investment in this industry just to save it, the potential exists to not just hold onto market share, but significantly increase New Mexico's market share in the national and world market. The industry could easily grow 5 fold from its peak given the high quality of New Mexico chile if it was sufficiently automated. The demand for chile products is skyrocketing and New Mexico is in a unique position to take advantage of it.

The HED states that due to the immediate, critical industry need continued funding will be requested until the sunset of the project in approximately four years.

GH/nt