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FISCAL IMPACT REPORT

ORIGINAL DATE 01/23/13

SPONSOR Lundstrom LAST UPDATED 02/26/13 HB 75

SHORT TITLE Business Attraction & Retention Program SB _____

ANALYST Clark

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|---------|------------------------------|------------------|
| FY13 | FY14 | | |
| | \$880.0 | Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

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 75 appropriates \$880 thousand from the general fund to the Economic Development Department (EDD) for the purpose of supporting a program to attract and retain businesses and to create jobs in New Mexico.

FISCAL IMPLICATIONS

The appropriation of \$880 thousand contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2014 shall revert to the general fund.

SIGNIFICANT ISSUES

Analysis from the EDD indicates the agency might provide the additional funding to the economic development partnership (partnership), the nonprofit entity contracted by the Department to recruit businesses to New Mexico. However, the appropriation of \$880 thousand does not specify the money should exclusively go to the partnership and could be used by the

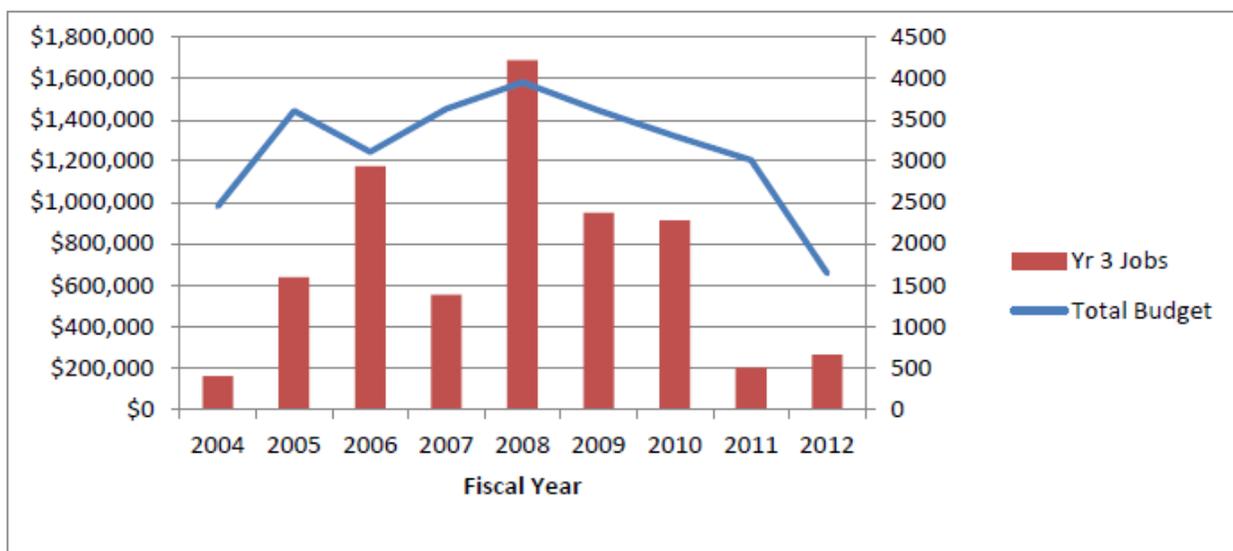
Economic Development Division within the EDD, which is the program that works directly to retain businesses and create jobs as well as indirectly to attract businesses through its contract with the partnership.

The partnership was created in 2003 as a nonprofit organization tasked to promote New Mexico to businesses outside the state, and to recruit companies to locate in rural and urban areas of New Mexico. Initially funded with nonrecurring special appropriations, funding for the partnership has fluctuated over time. The partnership receives nearly its entire operating budget through a contract with the EDD. Appropriations to the EDD for the partnership peaked at \$1.4 million but decreased during the economic downturn. The FY13 operating budget for the partnership indicates funding from the EDD has been reduced by almost half to \$630 thousand from the \$1.1 million the partnership received from the EDD in FY11. To continue operating after such a significant funding reduction, the partnership moved its office to a location with cheaper rent and reduced staffing levels, the number of job trade show events the staff attend, air travel and overnight stays, and the amount spent on consultants.

Funding for the partnership is important because most communities throughout the state do not have sufficient staffing levels or budget to facilitate business recruitment. Most communities rely on the partnership to generate and filter prospective business relocations to economic development staff and chambers of commerce in local communities. The partnership provides project management, hosts site visits for prospective clients, and helps to develop skills in the local communities to prepare for client visits. The partnership reports that in comparison, several regional cities have recruitment budgets larger than the statewide partnership, including Denver with \$3.5 million, Phoenix with \$4.5 million, Tucson with \$3.5 million, and Austin with \$2.5 million.

PERFORMANCE IMPLICATIONS

The EDD reports there is a demonstrated correlation between the numbers of jobs the partnership has been able to recruit to the state with the amount of funding it has received. The following chart shows the partnership’s historical budget compared with the organization’s three-year job announcements for each fiscal year.



ADMINISTRATIVE IMPLICATIONS

This bill creates minimal additional administrative costs as the appropriation supplements an existing program.

RELATIONSHIP

This bill relates to House Bill 2 which includes \$930 thousand for the partnership, with language specifying this appropriation.

OTHER SUBSTANTIVE ISSUES

The EDD provided the following analysis:

According to the Department of Labor, most mass job relocations are from one U. S. state to another, rather than to an overseas location. Attracting and retaining businesses is extremely competitive. New Mexico is faced with potential job losses of 20 thousand due to federal budget cuts, and there is already evidence that this is occurring. Most recent data from the Workforce Solutions Department indicates that over the 12 months between November 2011 and 2012 the state lost 4,800 government jobs (1,200 federal) and 3,900 jobs in the professional and business services sector, which is dominated by employment at the two national laboratories. This is only the beginning. The state must dedicate resources to attract and grow new private sector jobs to offset these losses or face a declining statewide economy. Gross receipts will decline, leaving communities with fewer resources to provide services, and New Mexico graduates will seek employment elsewhere.

JC/svb:blm