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

SPONSOR: Aragon   DATE TYPED: 2/26/03   HB

SHORT TITLE: State Stimulus Plan Act   SB 842

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
		(17,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From
DFA

SUMMARY

Synopsis of Bill

Senate Bill 842 would attempt to draw venture capital investment and economic development projects to NM by providing state tax offsets, specifically tax credits against insurance premium taxes. Authorized offsets would be delayed over a period of years after the qualified investments were made.

The economic development projects targeted by the legislation are intended to fall within the state's overall strategy for economic growth and diversity. However, certain types of professions, such accountants and lawyers, would be denied eligibility.

The proposed legislation parallels "stimulus plans" in other states where tax offsets have been repackaged and sold to third parties who are most likely to incur future state tax liability, and therefore capable of using the full value of the credits. Large insurance companies are the likely purchasers of these repackaged tax benefits.

Essentially, the legislation is designed to take a stream of future tax payments and create a pool of capital immediately available for investment in economic development projects. Presumably, the targeted investments would in turn generate additional employment, taxable transactions, and other tax revenues to the state that would replace the stream of foregone taxes.

FISCAL IMPLICATIONS

The fiscal impact assumes a $170 million stock of credits expended evenly over $10 years. This information was provided by the sponsor's technical advisors.

OTHER SUBSTANTIVE ISSUES

DFA makes a variety of policy arguments:

- It is unclear how much additional investment capital would be drawn to New Mexico by virtue of third-party participation. The State Investment Council could administer a similar program without incurring the transactions costs of the third parties executing the swaps or hedging instruments. It is not clear that the state needs a private vehicle to offer tax credits to induce economic development projects.

- It is unclear that these economic development projects have returned incremental state taxes in the long run to offset the costs of these programs. Tax offsets would not be creditable for three years after enactment of the proposed legislation.

- The US economy is largely a service economy and becoming more so each year. This legislation specifically includes services businesses and therefore excludes a large pool of potential eligibles. It appears that the legislation is intended to attract manufacturing enterprises which are cyclical employers (hiring and firing) and incur higher than average impact costs on natural resources. Therefore, passage of this legislation would cause the state to incur other tangible and intangible costs in addition to tax expenditures (foregone taxes).

- The full impact of the legislation would occur in FY06 and thereafter, a critical juncture for state tax collections, under legislation currently enacted (HB167).

- The state has no control over the particular investments made and would not participate in ownership or additional upside if the particular businesses were to succeed.

SS/yr