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FISCAL IMPACT REPORT

ORIGINAL DATE 1/31/06

SPONSOR Lundstrom LAST UPDATED _____ HB 277

SHORT TITLE NMFA New Markets Tax Credit Program SB _____

ANALYST Lewis

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
	NFI*		

(Parenthesis () Indicate Expenditure Decreases)

*See narrative.

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 277 amends the Statewide Economic Development Finance Act to authorize the New Mexico Finance Authority to form, operate, own or co-own one or more nonprofit or for-profit qualified community development entities for the purpose of participation in the federal New Markets Tax Credit Program, and to:

- A. apply for and obtain one or more allocations of new markets tax credits;
- B. market and sell qualified equity investments;
- C. make qualified low-income community investments; and
- D. take all actions necessary or convenient to carry out the purposes of the qualified community development entity or to participate in the federal New Markets Tax Credit Program.

FISCAL IMPLICATIONS

According to the Economic Development Department (EDD), there is currently no estimate of the fiscal impact of this bill on the Severance Tax Bonding Fund. The cost to staff and operate the community development entities (CDEs) should be minimal. However, the impact to the gen-

general fund would be positive as new jobs are created. NMGRT, payroll taxes and other taxes would be generated by the creation of new jobs and the investment of new dollars into the state's tax base.

According to the New Mexico Finance Authority (NMFA), House Bill 277 does not carry an appropriation, nor does it require any state funding. On the other hand, a successful application to the New Markets Tax Credit program will generate a flow of private investment capital into New Mexico.

The NMFA has developed a list of potential eligible projects for the program totaling more than \$350 million. The program is ideally suited to private business financing for business facility development, mezzanine finance structures, and commercial real-estate development, such as redevelopment of blighted commercial districts. An interesting application of New Markets Tax Credits has been to finance construction of charter schools throughout the nation.

SIGNIFICANT ISSUES

According to the New Mexico Finance Authority (NMFA), the New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

The NMFA notes that NMTCs are allocated annually by the U.S. Department of Treasury to CDEs under a competitive application process. These CDEs then offer the credits to taxable investors in exchange for stock or a capital interest in the CDEs. To qualify as a CDE, an entity must be a domestic corporation or partnership that:

- 1) has a mission of serving, or providing investment capital for, low-income communities or low-income persons;
- 2) maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity; and
- 3) has been certified as a CDE by the U.S. Department of Treasury.

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ADMINISTRATIVE IMPLICATIONS

According to the NMFA, HB 277 would require the NMFA to manage and administer this federal tax credit program. The Finance Authority has a team of finance analysts and accountants, who have specific expertise in working with federal programs. As an example, the NMFA manages, on behalf of the State of New Mexico, the federal drinking water state revolving loan program. NMFA would not require any resource from the state, aside from partnership with appropriate state agencies (e.g., the Economic Development Department) and the Legislature.

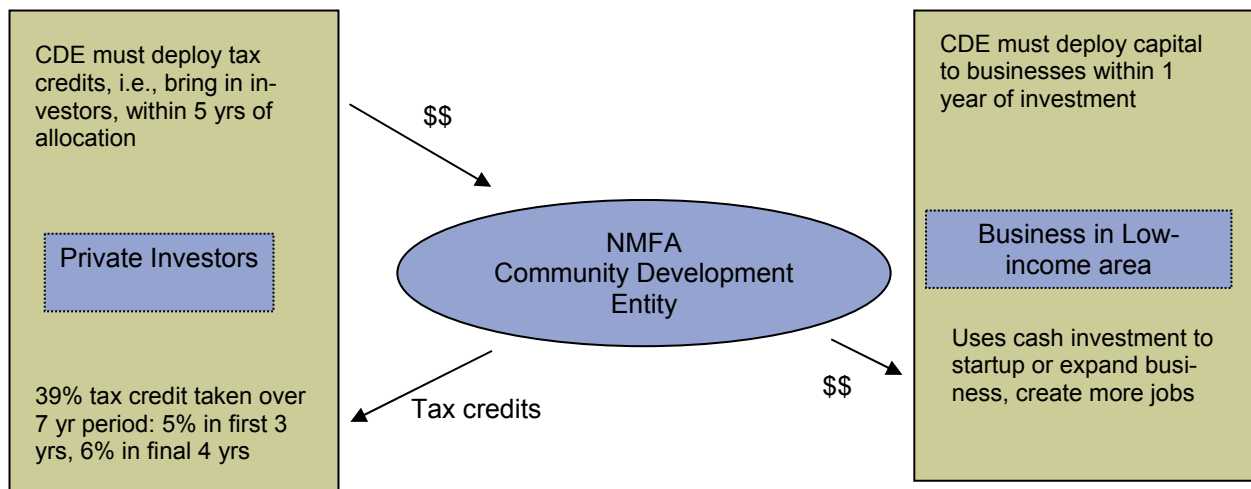
TECHNICAL ISSUES

NMFA notes that this legislation does not carry an emergency clause, and suggests that it could be useful to include an emergency clause to allow the NMFA to begin participating as soon as possible.

OTHER SUBSTANTIVE ISSUES

According to NMFA, no single entity within New Mexico has been successful in being awarded tax credits pursuant to this federal program. This unfortunate circumstance has limited private sector participation in New Mexico in this specific program. The impact of this is that New Mexico is not on the radar screen for investment by those private-sector investors who have participated in the New Markets Tax Credit.

A flow diagram provides a simple illustration of the program operation.



Ex. \$1,000,000 equity investment = Tax Credit Value is \$390,000

Investment Repay	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$1,000,000
Dividends	\$??	\$??	\$??	\$??	\$??	\$??	\$??
Tax Credit Value	\$50,000	\$50,000	\$50,000	\$60,000	\$60,000	\$60,000	\$60,000
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

According to EDD, failure to enact this bill would delay New Mexico’s participation in the federal New Markets Tax Credit program, and would thus hinder access to capital for small businesses in New Mexico’s low-income communities.