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FISCAL IMPACT REPORT

		ORIGINAL DATE	2/11/06		
SPONSOR	Moore	**LAST UPDATED**		**HB**	825
SHORT TITLE	Certain Projects Without Legislative Approval			**SB**	
				ANALYST	Lewis

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	**FY07**		
	1,000.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB 290/SB 360 (NMFA Public Project Revolving Fund Changes)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	**FY07**	**FY08**		
	1,000.0		Recurring	Economic Development Revolving Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Finance Authority (NMFA)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 825 amends the Statewide Economic Development Finance Act to allow the New Mexico Finance Authority to provide financing assistance in an aggregate amount not to exceed $1,000,000 per year for standard projects without prior legislative authorization.

HB 825 appropriates $1,000,000 from the general fund to the economic development revolving fund for expenditure in fiscal year 2007 and subsequent fiscal years, without reversion, for the purpose of carrying out the provisions of the Statewide Economic Development Finance Act.

FISCAL IMPLICATIONS

The appropriation of $1,000,000 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 New Mexico Finance Authority (NMFA) estimates that each $1 million loan from the economic development revolving fund leverages $2 million in private financing and $3 million in contributed equity while creating 37 direct and 14 indirect jobs for New Mexicans. The wages earned over a ten year period for these 51 jobs are estimated to total approximately $21 million.

SIGNIFICANT ISSUES

According to the New Mexico Finance Authority (NMFA), the initial focus of the NMFA, with regard to the economic development revolving fund, has been on implementation of the "Smart Money Loan Participation Program," which leverages New Mexico's capital by bringing in private banks and lending institutions as partners, so that loans from the fund finance no more than 49 percent of the total project. Within the loan participation program, the NMFA generally relies on the bank's underwriting process and assign a risk premium comparable to that assigned by the private lender. For example, if the bank lends at the prime rate plus 200 basis points, NMFA will likely lend at treasury plus 200 basis points.

NMFA staff review the bank's interest rate and risk analysis, and perform their own quantitative analysis to assure conformance with banking industry standards and NMFA policies. To ensure the integrity of loans and protect the state's money, a claw-back provision will be required in the loan participation agreement that will include an interest rate escalator that can be enacted if the business is not meeting stated economic impact. Periodic reporting to the authority by the originator is required. The NMFA also estimates the overall economic impact of each project. Long term economic diversification, an increase in revenue to the state, job creation, and geographical location will determine priority of funded projects.

The NMFA notes that this amendment will allow the NMFA to provide smaller businesses with more business-friendly timelines. Smaller businesses are less able to withstand the longer timeframe otherwise required by the Statewide Economic Development Finance Act. House Bill 825 provides these smaller businesses with greater access to the program.

ADMINISTRATIVE IMPLICATIONS

The Economic Development Department (EDD) notes that the increased funding may require the addition of another FTE to administer the program.

TECHNICAL ISSUES

The Statewide Economic Development Finance Act defines "standard project" as land, buildings, improvements, machinery and equipment, operating capital and other personal property for which financing assistance is provided for adequate consideration, taking into account the antici-

pated quantifiable benefits of the standard project, for use by an eligible entity as:
1) industrial or manufacturing facilities;
2) commercial facilities, including facilities for wholesale sales and services;
3) health care facilities, including hospitals, clinics, laboratory and related office facilities;
4) educational facilities, including schools;
5) arts, entertainment or cultural facilities, including museums, theaters, arenas or assembly halls; and
6) recreational and tourism facilities, including parks, pools, trails, open space and equestrian facilities.

ML/nt