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FISCAL IMPACT REPORT

ORIGINAL DATE 2/1/06

SPONSOR Papen LAST UPDATED _____ HB _____

SHORT TITLE NMFA New Markets Tax Credit Program SB 357

ANALYST Kehoe

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
		(See Narrative)		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of Bill

Senate Bill 357 amends the Statewide Economic Development Finance Act to authorize the New Mexico Finance Authority (NMFA) to form, operate or own a community development entity for the purpose of participating in the New Markets Credit Program—a federal program operated by the U. S. Department of Treasury.

FISCAL IMPLICATIONS

There are no fiscal implications if this legislation is enacted. However, NMFA indicates an approved application to the New Markets Tax Credit Program could generate private investment capital into New Mexico. A list of potential eligible projects developed by NMFA totals approximately \$350 million. NMFA indicates the program would be ideal to finance business facility development, mezzanine finance structures, and commercial real-estate development.

SIGNIFICANT ISSUES

The following excerpts taken from the U. S. Department of Treasury website describes program proposed by Senate Bill 357: “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. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

NMTCs are allocated annually by the Fund 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 CDFI Fund. The Fund is currently accepting applications from entities seeking CDE certification.

Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors up to the aggregate amount of \$15 billion in equity as to which NMTCs can be claimed. To date, the Fund has made 170 awards totaling \$8 billion in allocation authority. The Fund released its fourth annual NMTC Program Notice of Allocation Availability (NOAA) on July 15, 2005. This NOAA invites CDEs to compete for tax credit allocations in support of an aggregate amount of \$3.5 billion in qualified equity investments in CDEs. Applications are due on September 21, 2005.”

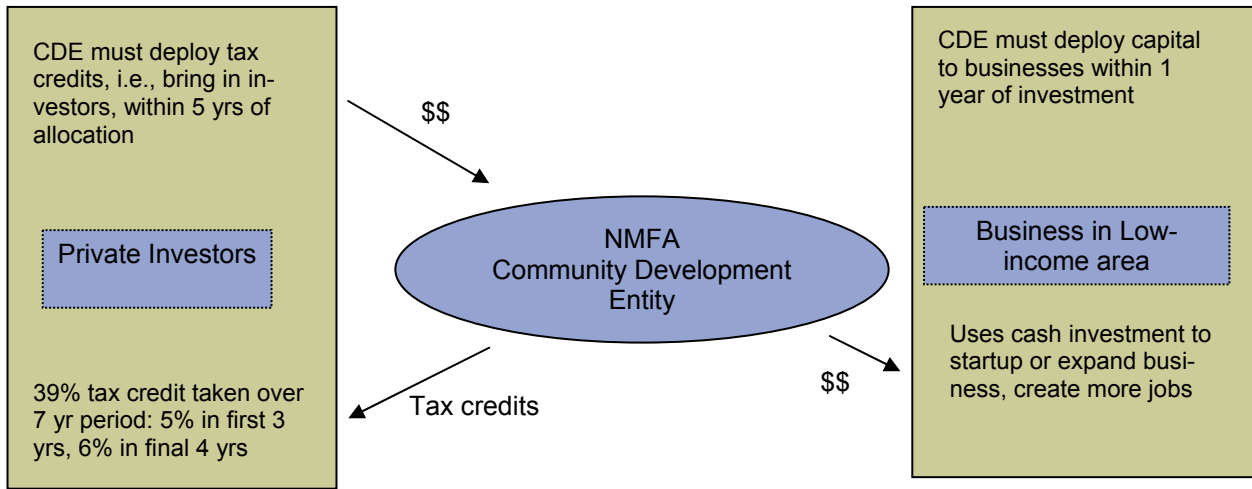
According to NMFA, the funding will only be available for two more years of future tax credit allocations, unless extended and authorized by the U. S. Congress.

ADMINISTRATIVE IMPLICATIONS

NMFA already has a team of financial experts and would not require additional sources to administer the program proposed within this bill.

OTHER SUBSTANTIVE ISSUES

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

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