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

SPONSOR Papen **ORIGINAL DATE** 01/26/10 **LAST UPDATED** 02/05/10 **HB**

SHORT TITLE Economic Development Revolving Fund Projects **SB** 66/aSFC

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY10	FY11		
NFI	NFI	Nonrecurring	Economic Development Revolving Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Finance Authority (NMFA)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment makes technical changes to the bill to correct entities and project descriptions, and provides legislative authority to NMFA to make loans for five more projects from the economic development revolving fund. The economic development projects are in McKinley, Otero, Quay, Chaves, and Taos counties.

Synopsis of Original Bill

Senate Bill 66, introduced for the New Mexico Finance Authority Oversight Committee, authorizes the New Mexico Finance Authority (NMFA) to make loans for private projects from the economic development revolving fund. According to the Statewide Economic Development Act projects must be authorized by the Legislature. The bill contains an emergency clause.

FISCAL IMPLICATIONS

Senate Bill 66 authorizes NMFA to provide financial assistance for 38 projects totaling approximately $39 million in the form of loan participations with private lenders from the economic development revolving fund used to support the Smart Money Program. The loans are not to exceed five million dollars ($5,000,000) per project and subject to certain terms and conditions as set forth by NMFA. The Smart Money Loan Participation Program was capitalized with a $10 million general fund appropriation in 2005 and $2 million in 2007.

During the 2009 Special Legislative Session (Senate Bill 29), the Legislature passed a bill to exchange non-obligated Smart Money Program state general funds totaling $5 million for severance tax bonds for use toward solvency. However, the governor line-item vetoed the $5 million, thus leaving an approximate balance of $1.8 million available for loan participations from the economic development revolving fund. Due to the small amount of money in the economic development revolving fund, NMFA policy currently limits each project to no more than $2 million in Smart Money funds unless the project is projected to produce over 200 jobs.

According to NMFA the two components to the investment return to legislative appropriations to the economic development revolving fund is as follows:

- The direct returns to the fund measured by the repayments of principal and interest on loans from the fund; and
- The return to the state as a whole in the form of additional tax and fee revenue generated as a result of the new business investment financed with loans from the fund.

The NMFA leverages the capital by partnering with private banks and institutions so loans from the fund finance no more than 49 percent of a total project. The program is designed to match the risk-need with appropriate financing arrangements. In a rural area, for example, local lenders may be constrained by legal lending limits and out-of-area lenders may be uncomfortable with the location. Regardless of the reason, the program is intended to bridge the gap and give businesses in all areas of the state access to affordable capital. Some projects may only need introductions to lenders while others may need direct guarantees. The Smart Money Program has 36 participating financial institutions with over 180 locations in communities throughout the state. NMFA shares the risk of the projects with the bank and provides interest rate buy-down to businesses.

The NMFA estimates the overall economic impact of each project by analyzing the long-term economic diversification, the increase in revenue to the state, job creation, and geographical location to determine priority of funded projects.

SIGNIFICANT ISSUES

Laws 2003, Chapter 349, enacted the Statewide Economic Development Finance Act authorizing creation of a Statewide Economic Development Finance Program (Smart Money), creation of the economic development revolving fund, and authorizing NMFA to issue certain Economic Development Bonds, and to make loan participation and loan guarantees on behalf of entities engaged in qualifying economic development projects. The loan participation program shares risk of the project with the bank. The projects financed must stimulate economic development and create jobs.

The purpose of the program is to create a public/private partnership to finance projects through low-cost capital loans to stimulate the economy and create jobs in rural and underserved communities within the state. The Authority has approved six projects totaling $10.2 million in loan participations leveraging over $32 million from Smart Money bank partnerships. As of June 30, 2009, six loan participations totaling nearly $3.6 million have closed. The following table demonstrates Smart Money allocations to date:

ADMINISTRATIVE IMPLICATIONS

Smart Money Allocations						Job Creation Requirements *	
Project	**Smart Partner Bank**	**Total $**	**Partner $**	**Smart $**	**To Be Created**	**Created to Date**	**Deadline**
PreCheck, Inc. (Alamogordo)	Bank 34 (fka Alamo Fed)	$2,418,750	$1,564,062	$854,600	100	67	07/14/11
Western Woods (Raton)	International Bank			$1,274,000	26	28	12/10/13
Murray Hotel (Silver City)	Western Bank	$3,010,579	$1,810,579	$1,200,000	40	5	07/30/14
Plaza Hotel (Las Vegas)	Valley National Bank	$5,517,944	$3,867,944	$1,650,000	33	27	08/20/14

*Job creation determined on a project-by-project basis, with a minimum job creation target of 1 job created for each $50,000 of Smart Money
Source: NMFA

The NMFA and Economic Development Department partner in developing and administering the Smart Money program and work together to identify all viable business expansion and relocation projects currently in need of financing assistance.

LMK/mew:svb