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FISCAL IMPACT REPORT

	ORIGINAL DATE 01/22/11		
SPONSOR	Papen	LAST UPDATED	HB
	NMFA Economic Development Revolving Fund		
SHORT TITLE	Projects	SB	20
			ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
NFI	NFI	Nonrecurring	Economic Development Revolving Fund (See Fiscal Summary)

(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

Senate Bill 20, endorsed by 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. The bill contains an emergency clause.

FISCAL IMPLICATIONS

Senate Bill 20 authorizes NMFA to provide financial assistance for 13 projects totaling approximately \$8.9 million in the form of loan participations with private lenders from the economic development revolving fund. The loans were limited to five million dollars (\$5,000,000) per project subject to certain terms and conditions as set forth by NMFA. However, due to the small amount of money in the economic development revolving fund, the NMFA policy currently limits each project to no more than \$2 million. The balance in the economic development revolving fund is approximately \$489,000, and the Authority indicates they currently have two “potential” applicants that would absorb the remaining funds. To continue the viability of the loan participation program and the interest as an alternative funding source for economic development projects, the Legislature would have to consider appropriating additional capital to 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. According to the Statewide Economic Development Act, projects must be authorized by the Legislature.

LMK/bym