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FISCAL IMPACT REPORT

ORIGINAL DATE 2/4/16

SPONSOR Sanchez, M. LAST UPDATED _____ HB _____

SHORT TITLE Local Project Money to Small Businesses SB 268

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18	FY19	FY20		
		See Fiscal Implications				

Parenthesis () indicate revenue decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

Attorney General's Office (AGO)

SUMMARY

Synopsis of Bill

Senate Bill 268 would require the Economic Development Department (EDD) to allocate at least 25 percent of Local Economic Development Act (LEDA) funds expended in any fiscal year to projects that directly support "small businesses" defined as an independently-owned business entity that employs 25 or fewer employees. The bill also creates the local economic development fund, which would be a nonreverting fund, and appropriates money in the fund to EDD for LEDA projects.

The effective date of this bill is July 1, 2016.

FISCAL IMPLICATIONS

Although this bill has no immediate fiscal impact, it creates a new, nonreverting fund and provides for continuing appropriations. Future appropriations for LEDA projects that might otherwise revert to the general fund would not revert if appropriated to this fund. Additionally, LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the Legislature to establish spending priorities.

SIGNIFICANT ISSUES

LEDA is a job creation program, incentivizing companies that relocate to or expand in New Mexico, and EDD reports placing a limitation on the number of jobs that a company can create and still qualify would be counterproductive to this purpose.

The Local Economic Development Act, Section 5-10-1 through 5-10-13 NMSA 1978, allows funding for economic development projects, but the funding can only be used for land, buildings, and infrastructure (with limited exceptions). EDD has discretion to use LEDA funds to upgrade existing infrastructure for startups or existing companies already located in New Mexico or to use the funds to win relocation projects. The Legislature provided a “full toolbox” of incentives for economic development over the last few years to make New Mexico a more financially attractive location for business, including significantly increasing funding for LEDA projects in 2014 and 2015, providing a total of \$65 million.

PERFORMANCE IMPLICATIONS

By restricting the use of LEDA funds, EDD states the bill would have a negative impact on performance results related to job creation for the agency as a whole and the Economic Development Partnership, which acts as the marketing and business recruitment arm for the agency.

TECHNICAL ISSUES

The bill requires that EDD “apply” at least 25 percent of the LEDA funds it expends in each fiscal year for small business projects. It can be assumed “apply” means “expend,” but the wording is slightly vague.

The language stating the 25 percent requirement applies to “projects that directly support small businesses” is similarly vague. EDD reports a large employer would “support” local small businesses by purchasing goods and services from them, and in this way, all projects currently funded “support” small businesses. It appears that is not what the bill intends, and the inclusion of the word “directly” seems to make such an interpretation difficult to consider, but it is possible the agency could choose to interpret the language in this way and continue unaltered its current LEDA project selection and expenditure process.

JC/al

Attachment: Summary of EDD LEDA Funds

**Summary of Economic Development Department
Local Economic Development Act (LEDA) Funds**

As of 2/5/16

Project Description	FY	Appropriated Amount	Expended Amount	Encumbered Amount	Remaining Amount	Reversion Date
LEDA 2014 capital outlay appropriation (STB)	15	\$5,000,000		\$5,000,000	\$0	6/30/2018
LEDA 2014 general fund appropriation (Special)	15	\$10,000,000	\$5,358,416	\$4,641,584	\$0	6/30/2016
LEDA 2015 capital outlay appropriation (STB)	16	\$10,000,000		\$626,852	\$9,373,148	6/30/2019
LEDA 2015 general fund appropriation (\$27M Special, \$1.6 capital outlay GF)	16	\$28,600,000			\$28,600,000	\$27M non-reverting, \$1.6M reverts 6/30/2019
LEDA 2015 other state funds appropriation (\$10.5M Special, \$900K capital outlay OSF)	16	\$11,400,000			\$11,400,000	\$10.5M non-reverting, \$900K reverts 6/30/2019
Total LEDA funds		\$65,000,000	\$5,358,416	\$10,268,436	\$49,373,148	

Source: Economic Development Department, LFC Files