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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/02/18

SPONSOR Ivey-Soto LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Enhanced Enterprise Zone Act SB 151

ANALYST Martinez

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		See Fiscal Impact	See Fiscal Impact	See Fiscal Impact	See Fiscal Impact	See Fiscal Impact

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Economic Development Department (EDD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 151 enacts the Enhanced Enterprise Zone Act and allows local governments to establish Enhanced Enterprise Zones (EEZ) as economic tools. EEZs may be used in “economically underperforming areas” as shown by an economic impact study. The incentive to participate in an EEZ is the abatement of the collection of property taxes on the improvements to the properties in the zone for a period not greater than 10 years. The collection of the increased property tax valuation is phased in over a three year period following the end of the abatement.

The law will sunset July 1, 2033. In 2030, the Legislative Finance Committee shall study the effectiveness of the Enhanced Enterprise Zone Act.

### FISCAL IMPLICATIONS

The fiscal implications cannot be quantified in a manner that applies to all EEZs. The sole power to create an EEZ is vested in the local government. The local government must find properties in the proposed zone are economically underperforming. Therefore, the property taxes are less than optimal for the zone’s potential. Abatement applies only to the difference between the current property taxes and the increased property taxes that would be due after the participating properties are improved. However, new mill levies will be collected on the

properties within the zone and adjustments may be made to existing mill levies for yield control. However, property taxes would not increase on the improvement value of the properties until the abatement period ends.

The length of the abatement period is established by the local government, but cannot exceed 10 years. Therefore, this is a zero cost tool.

## **SIGNIFICANT ISSUES**

The following significant issues were provided by the Economic Development Department:

There are currently at least 3,000 enterprise zones in at least 43 states as well as “renaissance zones” in Michigan and “empire zones” in New York.

This is a geographically-focused tool for economic development, which differs from most economic development programs which are company- or project-focused. It can be used in urban or rural areas at the discretion of the local government and can be used for new commercial development or for redevelopment. It may not be used for new single-family residential construction in unimproved areas, but does recognize that residential uses are often intermingled with commercial uses and local governments can allow individual residents to participate.

It also permits contiguous landowners to request inclusion in the zone upon submittal of a development or improvement plan. The issue of “contiguity” has been litigated in New Mexico, generally in annexation cases, and the bill addresses the meaning of physical contiguity.

An increase in “revenue-producing enhanced enterprises” is one of the purposes of creating an EEZ. In order to create an EEZ, both municipal and county approval is required for zones in incorporated areas.

## **PERFORMANCE IMPLICATIONS**

The New Mexico Economic Development Corporation reports that between 25 percent and 30 percent of the business relocation opportunities that the state receives are lost due to a lack of available commercial buildings. One intent of an EEZ is to encourage “speculative development” that would improve our chances to attract more companies to the state. Other states, such as New York, advertise their enterprise zone programs intensely.

Other programs, such as Metropolitan Redevelopment Areas (MRAs) and the existing enterprise zone legislation, have more stringent requirements in terms of extreme poverty and severely blighted conditions which greatly limits potential areas for development. The proposed EEZ legislation provides more flexibility for local governments in choosing economically underperforming areas for an EEZ.

NMEDD will assist local governments upon request and local governments will report the results of the establishment of EEZ to the department. The county assessors will have to appraise properties in the zones using standard appraisal methods and the county treasurers will have to cooperate in abating the collection of the increased valuation.