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FISCAL IMPACT REPORT

01/31/13
ORIGINAL DATE 02/22/13
LAST UPDATED 02/27/13 **HB** _____

SPONSOR Munoz

SHORT TITLE Economic Development Fund Reporting **SB** 118/aSfI#1

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
NFI	NFI	N/A	Economic Development Revolving Fund (See Fiscal Implications)

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)
 Economic Development Department (EDD)

SUMMARY

Synopsis of SFI#1 Amendment

Senate Floor Amendment #1 requires the New Mexico Finance Authority (NMFA) to report twice each year rather once each year to the New Mexico Legislative Oversight Committee on the loans made from the Economic Development Revolving Fund.

Synopsis of Original Bill

Senate Bill 118, endorsed by the New Mexico Finance Authority Oversight Committee, extends for three years the suspension of the requirement for specific legislative authorization of “standard” projects funded by the New Mexico Finance Authority (NMFA) from the Economic Development Revolving Fund (EDRF). The bill further requires the NMFA to report each year to the NMFA Legislative Oversight Committee on the following: total expenditures from the EDRF for the previous fiscal year, the purpose of the expenditures, an analysis of the progress of the projects funded, and proposals requiring legislative action.

FISCAL IMPLICATIONS

As defined in the State Economic Development Act, “standard project” means land, buildings, improvements, machinery and equipment, operating capital and other personal property for which financing assistance is provided for adequate consideration, taking into account the anticipated quantifiable benefits of the standard project, for use by an eligible entity as:

- (1) industrial or manufacturing facilities;
- (2) commercial facilities, including facilities for wholesale sales and services;
- (3) health care facilities, including hospitals, clinics, laboratory facilities and related office facilities;
- (4) educational facilities, including schools;
- (5) arts, entertainment or cultural facilities, including museums, theaters, arenas or assembly halls; and
- (6) recreational and tourism facilities, including parks, pools, trails, open space and equestrian facilities.”

In fiscal year 2011, the NMFA and the Economic Development Department (EDD) applied to the U.S. Department of Treasury (Small Business Jobs Act) for approximately \$13.2 million of federal State Small Business Credit Initiative (SSBCI) funding. The purpose of the SSBCI is to support small business lending to assist entrepreneurs in expanding their business thereby creating jobs. The federal funds were awarded to the EDD on behalf of the state and the Allocation Agreement was signed October 11, 2011.

In January 2012, the NMFA received the first portion of the federal funds, approximately one-third of the award, and the funds were deposited in the EDRF. Under a Memorandum of Understanding with the EED, the NMFA operates the Collateral Support Participation Program (CSPP) which buys short-term participations from state banks for working capital lines of credit, construction loans, and equipment projects as well as small, subordinated interests in long-term mortgages.

According to the NMFA, through the program, banks are able to provide more capital to its businesses without increasing the amount of dollars it lends directly to the project. As dollars are obligated through the CSPP, additional federal dollars will be released. However, if funds are not obligated in a timely manner, the funds could be withdrawn and redistributed to other states. The state is also required to leverage each federal dollar with \$10 of private dollars by December 31, 2016. According to the NMFA, the state will meet the target by relending dollars from short-term loans, but must be able to quickly process loans.

By suspending the legislative authorization, this bill allows the NMFA to disburse the federal dollars for various projects in a timely manner as required by the federal regulations and will help to ensure the release of additional portions of the federal funds.

SIGNIFICANT ISSUES

Laws 2011 (Chapter 150) temporarily allowed the NMFA to fund projects from the EDRF without prior legislative authorization. This bill further suspends the legislative authorization requirement for three years.

Under the current legislative authorization requirement, the NMFA’s ability to offer a lower cost

of capital is frequently delayed because the project had not received legislative authority to receive funds from the EDRF.

According to the NMFA, extending the suspension will give the NMFA the ability to manage, market, and commit to projects that need funding prior to the next legislative session. According to the NMFA, the required timelines have been an issue with the NMFA banking partners.

The EDD states “with the currently legislative authority requirement in place, a project’s readiness to proceed and access to the funding source is severely hindered due to the one year wait time for approval. Due to the lead time involved, projects may take their investment funds elsewhere. The ability to move a project forward from concept, to financing, to construction is critical for job creation, retention and/or expansion.”

This bill does not remove the NMFA reporting requirement to the NMFA Legislative Oversight Committee, but requires specific reporting on expenditure and uses on an annual basis rather than on a quarterly basis.

ADMINISTRATIVE IMPLICATIONS

According to the EDD, their agency and the NMFA collaborate effectively and partner with New Mexico bankers to stimulate economic development in New Mexico by offering low-cost loan financing to businesses creating new jobs for New Mexicans.

The provisions of this bill will allow the NMFA to meet the needs of businesses in a more efficient and timely manner.

LMK/svb:blm