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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 02/05/14  
**LAST UPDATED** 02/12/14    **HB** 272

**SPONSOR** Martinez, K.

**SHORT TITLE** Job Creation & Economic Development    **SB** \_\_\_\_\_

**ANALYST** Clark

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY14	FY15		
	\$24,950.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16		
	Unknown	Unknown		

(Parenthesis ( ) Indicate Revenue Decreases)

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

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		Minimal				

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

#### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Tourism Department (TD)  
 Economic Development Department (EDD)  
 Workforce Solutions Department (WSD)  
 Higher Education Department (HED)  
 Attorney General's Office (AGO)

#### No Response Received From

University of New Mexico (UNM)

## SUMMARY

### Synopsis of Bill

House Bill 272 appropriates \$24.95 million from the general fund for the purpose of improving economic development efforts and job creation. The bill makes a total of 12 specific appropriations to five agencies.

- The bill appropriates \$18.55 million to the Economic Development Department (EDD) for the following purposes:
  - \$1.5 million for the corporation created pursuant to the Economic Development Corporation Act (New Mexico Partnership) to use for marketing and hiring employees;
  - \$2 million for a cooperative marketing program that provides matching funds to stimulate local prospect-development efforts;
  - \$10 million for projects pursuant to the Local Economic Development Act (LEDA);
  - \$200 thousand for certified business incubators;
  - \$100 thousand for a program to prepare for and respond to employment opportunities generated by U.S. Forest Service restoration programs;
  - \$250 thousand to develop and test a job creation program focused on solo workers; and
  - \$4.5 million for the Job Training Incentive Program (JTIP).
- The bill appropriates \$3 million to the Tourism Department for the following purposes:
  - \$2.5 million to expand marketing and develop visitor-experience activities and
  - \$500 thousand to develop and begin implementing an online customer service training system for the tourism and hospitality industries.
- The bill appropriates \$150 thousand to the Higher Education Department (HED) to develop a workforce gap forecasting model.
- The bill appropriates \$3 million to the Workforce Solutions Department (WSD) for use in fiscal years 2014 and 2015 to implement or expand summer youth employment programs that include workforce skill development and mentoring in state and local government agencies.
- The bill appropriates \$250 thousand to the Board of Regents of the University of New Mexico (UNM) for the Bureau of Business and Economic Research (BBER) to develop a jobs-impact model that would help decision-makers evaluate the impact of proposed legislation on the likely creation or destruction of economic base jobs.

The bill includes an emergency clause.

## FISCAL IMPLICATIONS

The appropriation of \$24.95 million contained in this bill is a nonrecurring expense to the general fund. For the appropriation of \$4.5 million to EDD for JTIP, any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund. For the remaining appropriations, any unexpended or unencumbered balance remaining at the end of fiscal year 2015 shall revert to the general fund.

There is no direct impact on revenues; however, enactment of the bill could assist economic development efforts, which in turn could result in increased job creation, tourism revenues, and business investment. This potential economic growth would presumably result in a larger tax base.

### **SIGNIFICANT ISSUES**

The appropriation of \$1.5 million for the New Mexico Partnership would bring the funding level for the organization back to approximately the peak of its budget during the pre-recession years. The Partnership was created in 2003 as a nonprofit organization promoting New Mexico to businesses outside the state and recruiting companies to locate in rural and urban areas of New Mexico. Most communities throughout the state do not have sufficient staffing levels or budgets to facilitate business recruitment and rely on the Partnership to provide this function. The organization receives nearly its entire operating budget through a contract with EDD; the contract peaked at \$1.4 million, decreased during the economic downturn to \$630 thousand, and increased in FY14 by 48 percent to \$930 thousand.

The appropriation of \$10 million for projects pursuant to LEDA provides EDD flexibility to use the dollars as a closing fund to win business relocation projects. 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. Legislation enacted in 2013 requires EDD to place clawback provisions into contracts for LEDA funds, requiring proportional payback of funds when companies fail to deliver the contractually-promised economic benefits, such as jobs or payroll. For FY15, the agency requested \$10 million for LEDA. None of the \$3.3 million FY14 appropriation has been expended yet, although EDD reports it has dedicated much of the funding to projects.

For FY15, EDD requested \$1.5 million for JTIP, and the House Appropriations and Finance Committee (HAFC) Substitute for House Bill 2 matches this request. The \$4.5 million appropriation contained in this bill would provide a greater safety net for the program if the value of requests were to increase substantially for FY15. As of January 10th, the JTIP cash balance was \$12 million and the unobligated portion was \$5.8 million. Companies typically revert approximately 35-40 percent of the obligated balance, which was \$6.2 million.

The TD reports it is unclear what the directive “develop visitor-experience activities” requires of the department and what the desired distribution of the \$2.5 million would be to achieve this end. Currently, TD intends to direct increased funding toward advertising efforts. The agency notes concerns regarding an appropriation of \$500 thousand to “develop and begin implementing an online customer service training system.” The department has placed a great deal of emphasis on funding programs that generate a positive, proven, and measurable return-on-investment, and the agency suggests that, initially, the training system be developed on a smaller scale -- perhaps via a pilot program -- in order to assess the program’s efficacy.

Related to the \$150 thousand appropriation for HED to create a workforce gap forecasting model, HED, EDD, and WSD are part of the Employability Partnership, created by Executive Order 2012-022. The Employability Partnership shall “develop a comprehensive strategy and

metric systems which integrates the workforce development efforts of the relevant education, economic development, workforce, and supportive services agencies.” The governor signed the executive order in June 2012, but the group has not disclosed to Legislative Finance Committee (LFC) staff any results from or status of the research.

Related to the \$3 million appropriation in this bill for summer youth employment programs, WSD notes it most recently received \$3.6 million of federal funds to support youth programs and services under the Workforce Investment Act. Eligible youth participants receive a variety of supportive services -- summer employment programs are elements of the services funded by these federal dollars. The funding is prioritized and the local workforce development board level.

**CONFLICT**

The following chart compares the appropriations contained in this bill with the appropriations contained in the HAFC Substitute for HB 2. The list of appropriations coincides with the order of appropriations described in greater detail in the “Summary” section at the beginning of this document.

Item	Description	HB 272	HB 2	HB 272 Greater (or Less Than)
				HB 2
1	EDD - New Mexico Partnership	\$1,500.0	\$930.0	\$570.0
2	EDD - cooperative marketing program	\$2,000.0	\$0.0	\$2,000.0
3	EDD - LEDA closing funds	\$10,000.0	\$10,000.0	\$0.0
4	EDD - certified business incubators	\$200.0	\$130.0	\$70.0
5	EDD - forest restoration employment	\$100.0	\$0.0	\$100.0
6	EDD - solo worker job creation program	\$250.0	\$0.0	\$250.0
7	EDD - Job Training Incentive Program (JTIP)	\$4,500.0	\$1,500.0	\$3,000.0
8	Tourism - marketing and visitor experience	\$2,500.0	\$2,650.0	(\$150.0)
9	Tourism - online customer service training	\$500.0	\$0.0	\$500.0
10	HED - workforce gap forecasting model	\$150.0	\$0.0	\$150.0
11	WSD - summer youth employment programs*	\$3,000.0	\$3,600.0	(\$600.0)
12	UNM - jobs impact model	\$250.0	\$0.0	\$250.0
<b>Total Appropriations</b>		<b>\$24,950.0</b>	<b>\$18,810.0</b>	<b>\$6,140.0</b>

\*As noted in “Significant Issues,” WSD reports it most recently received \$3.6 million of federal funds to support youth programs and services. Eligible youth participants receive a variety of supportive services -- summer employment programs are elements of the services funded by these federal dollars.

**ADMINISTRATIVE IMPLICATIONS**

There will be additional administrative workloads for agencies to fulfill the purposes of this bill. EDD and WSD report the existing departmental infrastructure is able to support the administrative requirements. However, WSD reports it is primarily federally funded and does not have the funding to suitably administer its relevant function directed by the bill. To successfully administer the summer youth employment programs, the agency plans to retain 5 percent of the \$3 million appropriation, or \$150 thousand, for administrative expenditures. WSD currently administers apprenticeship programs, staffs high school career centers, and administers federally-funded youth programs.

**TECHNICAL ISSUES**

In its analysis, AGO notes the bill contains several provisions that are ambiguous or leaves terms undefined, making legal challenges plausible. The bill leaves undefined the terms: “cooperative marketing program,” “appropriate interim legislative committee,” “certified business incubators,” and “solo workers.” However, while “certified business incubators” is undefined in this bill, Section 9-15-34.1 NMSA 1978 defines the certification process for business incubators and lists conditions for state expenditures.

AGO also notes under Section 1(A)(7), the bill funds a development training program and tasks EDD to use this program to furnish qualified human resources “for certain new or expanding industries and businesses in the state.” Without further discussion of what “certain new or expanding industries” are, the term continues to be ambiguous and leaves room for industries not contemplated in this legislation to believe they have a right under the bill to a training program for their employees.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

WSD notes that without the support provided in this bill, it may be unfeasible to continue funding for statewide summer employment initiatives for youth given declining federal revenues.

JC/svb:jl