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FISCAL IMPACT REPORT

SPONSOR Maez ORIGINAL DATE 2/11/15
 LAST UPDATED 3/18/15 HB 347

SHORT TITLE Local Business Opportunity Fund SB _____

ANALYST Clark

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	\$5,000.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
	See Fiscal Implications	See Fiscal Implications		General Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Minimal	Minimal	Minimal	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 312 and SB 160

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 347 appropriates \$5 million from the general fund to the newly created “local business opportunity fund” to be administered by the Economic Development Department (EDD). The fund is created within the Local Economic Development Act (LEDA), and the bill adds a definition for “small resident business,” identifying a business as such if it is independently owned and operated, employs 50 or fewer full-time employees, and meets certain property tax requirements. Money in the fund is appropriated to EDD for small resident business projects pursuant to LEDA.

FISCAL IMPLICATIONS

The appropriation of \$5 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

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

The bill prevents appropriations to the newly created fund from reverting to the general fund. Currently, appropriations for LEDA projects revert at the end of a fiscal year; absent language making these appropriations for LEDA projects nonreverting, this bill could create a negative fiscal impact to the general fund if EDD did not use all the funds within a given fiscal year. However, given the proportion of LEDA funds currently used for New Mexico owned small businesses (see Significant Issues), the probability EDD would expend this appropriation of \$5 million within a single year appears high.

SIGNIFICANT ISSUES

EDD reports there is no need to create a new fund or earmark a portion of LEDA funds to small resident businesses. EDD received a \$15 million appropriation for LEDA projects for FY15, and those funds have been deployed to 26 projects in various funding stages thus far, and have resulted in 2,172 announced new jobs. Of those 26 projects, 52 percent are small businesses and 43 percent are New Mexico owned small business. The agency notes that if earmarking the local business opportunity fund for small resident businesses results in non-earmarked funds being expended on businesses that do not fall into that category, the bill could actually defeat its purpose with less funding spent on small resident businesses – perhaps as little as 10 percent of FY16 LEDA funding would be reserved for small resident businesses – a fraction of what has been expended on such businesses in the absence of the bill.

The bill proposes to benefit New Mexico small businesses by providing direct government assistance. However, economic base businesses (those currently funded through LEDA) are usually customers of other local companies. EDD reports recruiting Intel to New Mexico had a greater impact on many New Mexico small businesses than providing that same amount of direct financial assistance that Intel received to those businesses would have because those businesses

received contract funding or other revenue generation from Intel, immediately generating new revenue from dollars brought into the state through Intel’s global sales.

LEDA often operates as the state’s “closing fund” used to recruit new businesses to the state. However, the definition of “small resident business” in the bill precludes using money in the local business opportunity fund to recruit new businesses. Businesses must either be owned by New Mexico taxpayers, own property in New Mexico, or have employed residents of the state as 80 percent or more of its workforce during the past three years in order to benefit. Businesses that would truly be new to New Mexico would not benefit from this fund, and EDD notes this is a departure from the primary purpose of LEDA funds.

PERFORMANCE IMPLICATIONS

EDD and its finance development team rely heavily on funds appropriated for LEDA projects for its performance measures related to job creation. In the first two quarters of FY15, LEDA funds supported the creation of over 2,000 new jobs. However, the agency reports that because of the restrictions placed on the local business opportunity fund, performance would suffer compared to the performance the agency might achieve if the funding were appropriated for LEDA projects without these restrictions.

ADMINISTRATIVE IMPLICATIONS

EDD reports its Finance Development Team would likely need an additional 0.5 FTE to keep up with the new demands this change would cause. However, the administrative impact created by this appropriation would likely be far less than that caused by the \$15 million LEDA appropriation to EDD for FY15, which the agency handled with existing staff.

RELATIONSHIP

This bill relates to HB 2, which includes a \$37.5 million nonrecurring special appropriation for LEDA funding. The bill also relates to HB 312 and SB 160, which appropriate \$50 million from the general fund to EDD for LEDA funding. HB 312 and SB 160 specify that any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

JC/bb/aml