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FISCAL IMPACT REPORT

ORIGINAL DATE 1/28/06
 LAST UPDATED 2/15/06 HB 275/aHBIC/aSFC

SPONSOR Silva

SHORT TITLE NMFA Economic Development Fund Projects SB _____

ANALYST Kehoe/Lewis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
NFI	NFI		(See Narrative)	Economic Develop- ment Revolving Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Senate Bill 357.

SOURCES OF INFORMATION

LFC Files
 New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment strikes all HBIC amendments (apparently to correct a clerical/drafting error by which one project was repeated and another left out). All of the projects from the HBIC amendment are included in the SFC amendment, and another eight projects are added. As amended by SFC, HB 275 authorizes financing for a total of 44 projects.

Synopsis of HBIC Amendment

The House Business and Industry Committee amendment authorizes the New Mexico Finance Authority to provide financial assistance to an additional 16 entities for 25 private projects from the economic development revolving fund.

Synopsis of Original Bill

House Bill 275, introduced for the New Mexico Finance Authority Oversight Committee, grants legislative authority to the New Mexico Finance Authority to provide financial assistance for 12 private projects from the economic development revolving fund for 10 counties (Bernalillo, Chaves, Dona Ana, Eddy, Luna, Rio Arriba, San Miguel, Sandoval, Santa Fe and Valencia).

SIGNIFICANT ISSUES

Laws 2003, Chapter 349, enacted the Statewide Economic Development Finance Act authorizing creation of a Statewide Economic Development Finance Program, creation of the economic development revolving fund, and authorizing NMFA to issue certain Economic Development Bonds and make loan participation and loan guarantees on behalf of entities engaged in qualifying economic development projects. However, the fund was not initially capitalized.

FISCAL IMPLICATIONS

Laws of 2005, Chapter 347, appropriated \$10 million for the “Smart Money” loan participation program to capitalize the economic development revolving fund. The 12 projects authorized within House Bill 275 would require \$15 million in loans from the fund. The NMFA indicates the funds will attract an estimated \$31 million from private lenders and an estimated \$30 million in private equity. According to NMFA, these investments are projected to generate over 1,800 direct and indirect jobs and \$656 million in new wage income over the next ten years. The NMFA will estimate the overall economic impact of each project by analyzing the long-term economic diversification, the increase in revenue to the state, job creation, and geographical location to determine priority of funded projects.

The NMFA will leverage the capital by partnering with private banks and institutions so that loans from the fund finance no more than 49 percent of a total project. The program is designed to match the risk-need with appropriate financing arrangements. In a rural area, for example, local lenders may be constrained by legal lending limits and out-of-area lenders may be uncomfortable with the location. Regardless of the reason, the program will bridge the gap and give businesses in all areas of the state access to affordable capital. Some projects may only need introductions to lenders while others may need direct guarantees.

In accordance with the Act, NMFA has adopted rules, regulations and policies for administration of the program. In administering the loan participation program, NMFA will generally rely on the bank’s underwriting process and assign a risk premium comparable to that assigned by the private lender (e.g., bank lends at Prime plus 200 basis points, NMFA will likely lend at treasury plus 200 basis points.). NMFA will review the bank’s interest rate and risk analysis, perform its own quantitative analysis to assure conformance with banking industry standards and NMFA policies. To ensure the integrity of loans and protect the State’s money, a claw back provision will be required in the loan participation agreement that will include an interest rate escalator that can be enacted if the business is not meeting stated economic impact. Periodic reporting to NMFA by the originator is required.

OTHER SUBSTANTIVE ISSUES

NMFA indicates “New Mexico has more PhD scientists and engineers per capita than any other state in the nation. New Mexico is third in the amount of private research and development, second in the amount of federal research and development and seventh in university research and development expenditures per capita. This is an incredibly strong knowledge base with which to build an economy of the twenty first century. New Mexico has often been short on the investment capital to nurture ideas and use its valuable knowledge base to develop a sustainable economy. New Mexico’s investment of its financial wealth today in Smart money and other economic development finance programs can diversify the state’s economy, both across industries

and geographic regions, paying dividends for centuries. The current wealth in oil and gas tax revenue gives New Mexico an unsurpassed opportunity to invest in economic development finance initiatives crucial to diversifying our economy so that it can create adequate and sustainable wealth for our future. New Mexico must look to its strengths and make substantial investments to create new engines of long-term economic growth.”

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 357 amends the Economic Development Finance Act to authorize NMFA to form, operate or own a community development entity and participate in the Federal New Markets Tax Credit Program.

LMK/ML/mt:yr