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FISCAL IMPACT REPORT

SPONSOR Silva **ORIGINAL DATE** 01/26/07
LAST UPDATED 03/12/07 **HB** 253/aHTRC/aSFC
SHORT TITLE NMFA Economic Development Fund Projects **SB** _____
ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	NFI	N/A	(See Fiscal Narrative)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)
 Attorney General's Office (AGO)
 Economic Development Department (EDD)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment to House Bill 253, as amended, adds a provision to require certain requirements for entities to qualify for assistance from the economic development revolving fund. In order to qualify for assistance from the fund, "eligible entities shall waive state and federal confidentiality laws or provisions, including the provisions of Section 6-25-27 NMSA 1978 to the extent needed to comply with the annual reporting requirements. The authority shall report annually to the NMFA Oversight Committee, the governor and the Legislature for each project approved during the previous calendar year such information as may be required to allow evaluation of the effectiveness of the program, including the name of the company, the project location, the amount of the state loan and the number of jobs created, as well as the status of all outstanding loans." The amendment makes other technical adjustments to the bill.

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendments to House Bill 253 seek legislative authority for the New Mexico Finance Authority to provide financial assistance to an additional 60 private projects from the economic development revolving fund. Amendment number 118

does not specify the type of project, but rather seeks legislative authority for a project identified only as a “mixed-use development” project in Grant County

Synopsis of Original Bill

House Bill 253, introduced for the New Mexico Finance Authority Oversight Committee, authorizes the New Mexico Finance Authority to provide financial assistance for 69 private projects in 25 counties from the economic development revolving fund in the form of loan participations with private lenders not to exceed five million dollars (\$5,000,000) per project subject to certain terms and conditions as set forth by NMFA.

FISCAL IMPLICATIONS

Laws 2003, Chapter 349, enacted the Statewide Economic Development Finance Act authorizing creation of a Statewide Economic Development Finance Program (Smart Money), 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. The fund was not initially capitalized. However, Laws of 2005, Chapter 347, appropriated \$10 million for the “Smart Money” loan participation program to capitalize the economic development revolving fund. The 2006 Legislature authorized 48 projects to potentially receive financial assistance from the economic development revolving fund. To date, NMFA has obligated \$4.3 million for business attraction, retention and expansion projects in Alamogordo, Albuquerque and Raton. The NMFA indicates it has ten additional projects in line for the remaining funds totaling \$5.7 million.

The 69 projects authorized within House Bill 253 would allow the private entities seeking \$675 million in business financing to be eligible to receive financial assistance from the economic development revolving fund. House Bill 252, a companion bill to House Bill 253, seeks a general fund appropriation of \$30 million to fund the projects authorized in this bill. The executive capital outlay recommendation supports the \$30 million to fund the Smart Money program.

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.

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. EDD expects the economic impact of the original \$10 million appropriation to create one thousand jobs, \$75 million in new plant and equipment, \$420 million in new wages and salaries over the next decade, and \$50 million in added state income and gross receipts taxes

SIGNIFICANT ISSUES

In June 2006, NMFA approved Los Alamos National Bank request for the Authority's participation for up to 49 percent in each of two loans not to exceed \$5 million to Advent Solar, Inc. located at Mesa Del Sol Development in Albuquerque. The financing is for an equipment loan in the amount of \$3 million and a revolving line of credit for working capital in the amount of \$2 million. Advent solar is a new manufacturer of innovative solar cells and modules. Its technology was originally developed and licensed by Sandia National Laboratories. According to NMFA, the company anticipates creating an additional 900 full-time jobs over the next 10 years with an average salary of \$46,000, stimulating the creation of an additional 962 indirect jobs and a total of \$530 million in new wages and an estimated \$432 million in new taxable gross receipts.

In June 2006, NMFA approved International Bank request for the Authority's 49 percent participation in three loans for Western Wood Products, Inc., in an aggregate amount not to exceed \$2 million for construction of a pressure treatment facility in Raton. The proposed treatment plant will allow Western Wood Products, Inc. to participate in direct sales of finished products to commercial and consumer markets. The facility will comply with Environmental Protection Agency standards. The company expects to create 27 full-time jobs and increase wages from the current \$8.00 per hour to an average of \$12-\$15 per hour. According to the company's economic analysis, the new facility will generate an additional 24 indirect jobs, for a total of \$13.5 million in new wages paid over the next ten years.

In April 2006, NMFA approved Alamogordo Federal Savings request for the Authority's 25 percent participation in three loans for PreCheck, Inc. in an aggregate amount not to exceed \$4.5 million to finance the construction and equipping of a new facility in the Mesa Village subdivision in Alamogordo and to provide working capital. The company performs background and payroll verification checks and performs credentialing for medical institutions nationwide. The Legislature appropriated a \$1.5 million capital appropriation requested by the governor for infrastructure improvements for public areas neighboring the project, the City of Alamogordo pledged a contribution of \$625 thousand toward the project over the next five years, and the developer and company will donate 1.5 acres of land to the city to build a fire station. The company expects to create at least 200 jobs over the next five years beginning at average salaries of \$28,500 annually.

In accordance with the Act, NMFA has adopted rules, regulations and policies for administration of the Smart Money 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.

ADMINISTRATIVE IMPLICATIONS

EDD reports the funding of these projects will require additional outreach and marketing costs to

the EDD to attract Smart Money participants.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 253 duplicates Senate Bill 221 in its entirety.

House Bill 252 proposes an appropriation of \$30 million to fund projects authorized by House Bill 253.

OTHER SUBSTANTIVE ISSUES

EDD reports the approval of these 69 projects will provide NMFA the tools to utilize the \$30 million in HB 252 and seek investors for the New Markets Tax Credit application. The Smart Money program will seek to provide capital to businesses in the underserved areas of New Mexico. Smart Money is designed to bridge a company's financial gap and give businesses access to affordable capital.

There are over 164 Smart Partner banks located throughout the State. EDD serves as the primary interface with business and economic developers and determines business eligibility. NMFA's role is the primary interface with the Smart Partner Banks. NMFA analyzes and structures applications for funding submitted by Smart Partner Banks and serves as the state's fiduciary agent in this loan transaction.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

EDD believes failure to pass this bill will limit the ability of local communities to create jobs and new investment with the expansion of existing businesses and the attraction and start-up of new businesses.

LMK/nt