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FISCAL IMPACT REPORT

ORIGINAL DATE 2-10-2007

SPONSOR Moore LAST UPDATED _____ HB 1037

SHORT TITLE Historic Preservation Loan Fund SB _____

ANALYST Dearing

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$100.0	Nonrecurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Cultural Affairs Department (CAD)

SUMMARY

Synopsis of Bill

House Bill 1037 appropriates \$100 thousand from the general fund to the Historic Preservation Loan fund administered by department of Cultural Affairs for the purpose of providing low-interest loans for preservation of properties on the State Register of Cultural Properties. Any unexpended or unencumbered funds at the end of State Fiscal Year 2008 will revert to the general fund.

FISCAL IMPLICATIONS

House Bill 1037 would allocate a \$100 thousand nonrecurring appropriation from the General Fund to the Historic Preservation Loan fund. Any unexpended or unencumbered funds at the end of State Fiscal Year 2008 will revert to the general fund.

SIGNIFICANT ISSUES

The Historic Preservation Loan fund was established in 1987 by the Legislature as a self-sustaining revolving loan program, providing low-interest loan assistance for restoration,

rehabilitation, and repair of properties listed on the State Register of Cultural Properties. Since 1989, the Historic Preservation Division has loaned and leveraged \$3,671,743 in rehabilitation dollars by partnering with lenders around the state for rehabilitation of eleven (11) properties in eight counties. By statute the state funds are loaned out for five (5) years (18-6-18 – 23 NMSA 1978). The interest rate is 3% (NMAC Title 4, Chapter 10, Part 2). At the end of the loan period, the loan is either paid back, or the participating lending partner buys out the remaining portion of the state loan. The lending partner usually combines the remainder of both loans into a traditional mortgage for the borrower.

From this self-sustaining revolving loan fund, the original \$300,000 in state funds have been re-invested several times and a total of \$642,367 has been extended to eleven rehabilitation projects. Currently \$209,300 has been distributed for loans to four properties in Socorro, Union, Santa Fe, and Bernalillo Counties.

Condition improvements and preservation efforts on historical properties can be seen as a moderately risky proposal for lending institutions. The availability of subsidizing loan funds at below-market rates has the effect of reducing borrowers' overall credit costs and decreasing default and liquidity risks to the lending institutions, thereby increasing the likelihood of private dollars going into preservation efforts.

PERFORMANCE IMPLICATIONS

Access to adequate funding improves the Historic Preservation division's ability to meet or exceed its performance measures. Specifically, the division has two General Appropriation Act performance measures tracking "Annually completed number of historic structures preserved, utilizing tax credits," and "Dollars of construction underway on historic buildings using state and federal tax credits."

While these measures do not mention the Historic Preservation Loan fund specifically, access to funds for individuals for preservation efforts will improve the division's performance in these measures. Improvements of most buildings on the State Register of Cultural Properties will qualify for state and federal tax credits, provided that they follow guidelines on historic processes and end results of the improvement efforts are in-line with the structures' original intent, appearance and function. When State funds are available through this fund, individual preservation efforts will increase and results of the tax credit measures should subsequently increase as well.

ADMINISTRATIVE IMPLICATIONS

Historic Preservation division has administered and distributed loans from this fund for 18 years. The division's staff possesses skills necessary to administer additional appropriations to this fund.

DUPLICATION

House Bill 1037 duplicates Senate Bill 624.

TECHNICAL ISSUES

The current balance of the Historic Preservation Loan fund is approximately \$170 thousand dollars, which is a non-reverting balance. The provision of House Bill 1037 requiring reversion on unencumbered or unexpended balances shall apply only to the appropriation of \$100 thousand in this bill and not extend to the fund's current balance.

ALTERNATIVES

Alternatives could include a direct lender interest rate subsidy or loan guarantee for financial institutions participating in this area of financing. A similar program, the Renewable Energy Systems and Energy Efficiency Improvements Program; Public Law 107-171—5-13-2002, exists at the federal level to increase the clean energy initiatives.

The 2002 Farm Bill, as enacted, mandates that the U.S. Department of Agriculture create an incentive program making grants, direct loans and loan guarantees to agribusinesses and small rural businesses.¹ The program provides these incentives to recipients purchasing qualified renewable-energy systems and energy efficiency improvements. Applications are submitted to the applicable Rural Development State Office for consideration.²

The guaranteed loan program guarantees up to 50% of project costs, up to \$5 million. Parallel grant/guarantee funds cannot exceed 50% of project costs, with maximum guaranteed loan portion limited to 70-85%, negotiated by lender and Rural Business-Cooperative Service. Loan terms are limited to 30 years for real estate, 20 years for machinery, and 7 years for working capital.

While the scope of this program is considerably larger, a similar framework could be established for Historic Preservation efforts in New Mexico.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Additional funds will not be available for individual preservation efforts and the frequency at which the division re-invests these funds will remain at the current level.

POSSIBLE QUESTIONS

What is the historic default rate of this loan program over its 18-year existence?

PD/mt

¹ <http://www.dsireusa.org/documents/Incentives/US05F1.pdf>

² http://www.rurdev.usda.gov/recd_map.html