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FISCAL IMPACT REPORT

ORIGINAL DATE 01/30/09
LAST UPDATED 03/23/09 **HB** _____

SPONSOR Papen

SHORT TITLE NMFA Loans for Economic Development Projects **SB** 90/aSFC/aHFI#1

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
NFI	NFI	N/A	(See Fiscal Impact Narrative)

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)

New Mexico Economic Development Department (NMEDD)

New Mexico Higher Education Department (HED)

SUMMARY

Synopsis of HFL #1

The House Floor Amendment #1 to Senate Bill 90, as amended, provides as follows:

Item 1 strikes Senate Finance Committee amendment item 5 authorizing NMFA to provide financial assistant to the following counties: Sandoval, Santa Fe, Bernalillo (two projects), Luna, Hidalgo, Luna, Dona Ana, San Juan, and McKinley.

Item 2 authorizes NMFA to provide financing assistance to the following counties: the aforementioned counties listed in the Senate Finance Committee, and added authorization for a business project in the Santa rail yard district in Santa Fe County.

Synopsis of SFC Amendment

Senate Finance Committee amendments to Senate Bill 90 provide as follows: Items 1 thru 4 provides technical changes; Item 5 requests legislative authorization for NMFA to provide financing assistance to an additional 10 qualified projects in the following counties: Sandoval, Santa Fe, Bernalillo (two projects), Luna, Hidalgo, Luna, Dona Ana, San Juan, and McKinley.

Synopsis of Original Bill

Senate Bill 90, introduced for the New Mexico Finance Authority Oversight Committee, authorizes the New Mexico Finance Authority (NMFA) to provide financing assistance for 33 private projects from the economic development revolving fund. According to statute, projects must be authorized by the Legislature.

The bill contains an emergency clause.

FISCAL IMPLICATIONS

The economic development revolving fund was capitalized with a \$10 million appropriation in 2005 and a \$2 million appropriation in 2007. The NMFA currently has balances from the 2005 and 2007 appropriations totaling \$5.74 million for projects authorized in FY10. The NMFA Board has approved \$6.26 million in loan participations, which will leverage an additional \$16 million from Smart Partner Banks: the Plaza Hotel (Las Vegas), Precheck (Alamogordo), Western Wood Products (Raton), Murray Hotel (Silver City), Schweers Properties (Alamogordo) and Coral Cactus (Santa Fe). The Smart Money program has 36 participating financial institutions with over 180 locations in communities throughout the state.

Senate Bill 90 requests legislative authorization for NMFA to provide financial assistance for projects totaling approximately \$133 million in the form of loan participations with private lenders not to exceed five million dollars (\$5,000,000) per project and subject to certain terms and conditions as set forth by NMFA. According to NMFA the two components to the investment return to legislative appropriations to the economic development revolving fund is as follows:

- The direct returns to the fund measured by the repayments of principal and interest on loans from the fund; and
- The return to the state as a whole in the form of additional tax and fee revenue generated as a result of the new business investment financed with loans from the fund.

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.

SIGNIFICANT ISSUES

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 to make loan participation and loan guarantees on behalf of entities

engaged in qualifying economic development projects. The loan participation program shares risk of the project with the bank. The projects financed must stimulate economic development and create jobs.

Section 1, item 26 requests authorization to make a loan to a private higher education project in Santa Fe County. The project may be referring to the purchase of property from the College of Santa Fe by New Mexico Highlands University (NMHU). NMHU does not know at this time if they will need to use NMFA as a funding stream mechanism, but the project is included for authorization by the Legislature in the event the loan is required.

ADMINISTRATIVE IMPLICATIONS

The NMFA and Economic Development Department partner in developing and administering the Smart Money program and work together to identify all viable business expansion and relocation projects currently in need of financing assistance.

LMK/svb:mt