F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	02/10/15		
SPONSOR	Garcia Richard	**LAST UPDATED**		**HB**	321
SHORT TITLE	Economic Development Project Population Limit			**SB**	
				ANALYST	Cerny

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$ 20.0	$20.0	$40.0	Recurring	General

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 321 would increase the population limit for communities eligible to receive funding under the Local Economic Development Act (LEDA) for retail projects only, from the current 10,000 to 25,000. It would amend Section 5-10-2K NMSA 1978.

FISCAL IMPLICATIONS

HB 21 carries no appropriation.

EDD analysis states that its, “Finance Development Team will likely need an additional half FTE to keep up with the new demand this change would generate.”

SIGNIFICANT ISSUES

Traditionally, funds appropriated to projects pursuant to the LEDA were limited to economic base, non-retail businesses. Economic base businesses are those that primarily serve out-of-state customers thus bringing new dollars into the state. They are most often in the manufacturing and service sectors.

In 2013, LEDA was amended to expand the definition of "qualifying entity" to include retail businesses in municipalities with populations of 10,000 or less. This bill would increase that population threshold to 25,000.

Legislative appropriations to LEDA have increased substantially over the past few years: in FY14 standing at $3.3 million; in FY15 at $15.0 million. For FY16 the LFC recommendation is for $30.0 million and the Executive is $50.0 million. Therefore, the program is growing and funding may be significant for communities that qualify. Funding decisions are made completely at the discretion of the EDD Secretary.

EDD analysis states:

> Retail businesses neither create as many jobs nor leverage as much private sector investment as economic base jobs. The retail sector generally does not bring any new dollars into a region or community. They are reliant on the dollars brought into the region by the economic base businesses and the jobs they create. Incentivizing the retail sector with LEDA funds will not ensure the success of those businesses without the existence of economic base industries to support them. Indeed, that is the very reason that LEDA was limited to non-retail, economic base projects in the first place.
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> Economic base jobs such as manufacturing create nearly three times as many indirect jobs as the retail trade sector. In fact, the multiplier for economic base employers is more than two, meaning that an economic base employer that creates ten direct jobs will create more than ten indirect jobs. The impact on the state's economy is exponentially higher when economic base jobs are created.

Further, EDD analysis suggests that the fiscal impact of this bill would be a net negative to the state:

> LEDA funds expended on retail projects will not have the job-creation impact that LEDA funds otherwise would. The funds expended will not generate as much revenue as they otherwise would while the cost would be substantial and the return on investment quite limited.

On the other side of the coin, some communities of 25,000 may have needs for retail that would substantially improve their community life, such as a grocery store, that would also provide some local employment where none currently exists. While such projects may not be the highest and best use LEDA dollars, they may still make a substantive difference in the lives of those who reside in some small towns in the state.

EDA currently enables municipalities and counties to impose a GRT increment for infrastructure to generate their own revenue for LEDA projects. Only eight governing bodies (municipalities and counties combined) thus far have imposed that tax for their own benefit.

OTHER SUBSTANTIVE ISSUES

In addition to the foregoing, EDD suggests that:

> …providing government incentives to retail businesses subjects incumbent businesses to competition they would not otherwise face. Just as retail spending most often simply re-

cycles existing money through the state's economy, as opposed to economic base employers that import new money into the state, a new retail establishment will as often as not take money from an existing retail business rather than generate new, additional spending at the new firm that would not otherwise take place.

Competition among economic base firms benefits those firms by creating economies of scope and scale. A new manufacturing operation opening could force new supply chain efficiencies, for example, or induce a supplier or transportation firm to move to New Mexico when it otherwise would not have.

Competition among retail firms, on the other hand, most often simply moves existing spending from one firm to another rather than generating new spending that would not otherwise take place. The likely effect is a government-subsidized competitor cannibalizing an incumbent firm.

TECHNICAL ISSUES

EDD analysis points out that the bill raises the population threshold for those municipalities in which retail establishments will be eligible, but it retains the requirement that retail establishments must be in incorporated municipalities to be eligible. Therefore, the smallest, most rural areas—those which might be most in need of assistance—will remain ineligible.

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