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## FISCAL IMPACT REPORT

SPONSOR Campos ORIGINAL DATE 2/17/15  
 LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Implement Local Economic Development Act SB 593

ANALYST Clark

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	\$50,000.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
	Indeterminate		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to Appropriation in the General Appropriation Act  
 Duplicates SB 160, HB 312

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Economic Development Department (EDD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 593 appropriates \$50 million from the general fund to the Economic Development Department (EDD) for the purpose of funding projects pursuant to the Local Economic Development Act (LEDA).

## **FISCAL IMPLICATIONS**

The appropriation of \$50 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

There is no direct impact on revenues; however, the appropriation contained in this bill could assist economic development efforts, which in turn could result in increased job creation and business investment. This potential economic growth would presumably result in a larger tax base.

EDD included the following economic impact data in its analysis. The economic impacts listed were generated from a model that does not include statutory incentives or state discretionary incentives, so the overall impact would be lessened to the degree that companies made use of such incentives.

The \$50 million cost to the general fund could be offset by the revenue generated from the projects funded, likely to the extent that the overall impact to state revenues will be positive. In fiscal years 2008-2012, the state expended \$39,405,150 on 32 LEDA projects. Those projects created 4,856 direct jobs and retained 1,934 existing jobs. (The capital outlays related to failed projects, such as Schott Solar, are included because the funds were spent before the project failed. The jobs created by failed projects and by the Santa Fe Studios projects are not included.)

These projects had continuing economic impacts. Beginning in 2012, these projects created 6,790 direct jobs and 6,992 indirect and induced jobs. Employees in those positions earned \$559,330,448 (\$298,884,798 for the direct jobs and \$260,445,651 for the indirect and induced jobs), and their employers earned \$2,688,520,549 in revenue.

Beginning in 2012, the increase in personal income will have an estimated annual fiscal benefit of \$63,102,812 in state revenues and \$31,980,458 in local revenues. In other words, after five years, revenues to local governments alone will annually amount to more than 81 percent the cost to the state of the initial capital investment. The state itself will earn a return of more than 160 percent of its investment annually.

In addition, funds appropriated for LEDA projects directly support temporary construction activity. In fiscal years 2008-2012, the \$39,405,150 expended on 32 LEDA projects generated \$73,561,534 in revenues for construction businesses and \$24,604,576 earnings for workers employed by those businesses. The state collected \$5,241,259 in gross receipts taxes on that construction work.

## **SIGNIFICANT ISSUES**

The appropriation of \$50 million for projects pursuant to LEDA provides EDD flexibility to use the dollars as a “closing fund” to close deals and win business relocation projects. The Local Economic Development Act, Section 5-10-1 through 5-10-13 NMSA 1978, allows funding for economic development projects, but the funding can only be used for land, buildings, and infrastructure (with limited exceptions). EDD has discretion to use LEDA funds to upgrade existing infrastructure for startups or existing companies already located in New Mexico or to

use the funds to win relocation projects. Legislation enacted in 2013 requires EDD to place clawback provisions into contracts for LEDA funds, requiring proportional payback of funds when companies fail to deliver the contractually-promised economic benefits, such as jobs or payroll. See Appendices A and B for lists of FY14 and FY15 year-to-date LEDA expenditures.

EDD notes New Mexico often competes for business projects with states that have sizeable closing funds and reports New Mexico needs a comparably sized fund to compete and create more jobs.

For comparison purposes, New Mexico's closing fund is smaller by half or more compared with those of some other states on a dollar basis, but current LEDA funding is about twice as great on a per capita basis compared with competitor states Texas, Arizona, and California. New Mexico has \$15 million available through its LEDA closing fund for FY15, which translates to more than \$7.00 per capita. Arizona and California have less than \$4.00 per capita available in their closing funds, and Texas has less than \$3.00. One of the largest and most influential such funds in the country is the Texas Enterprise Fund. According to the Texas Governor's Office, its fund decreased to \$76 million by June 30, 2014, and the last appropriation to the fund occurred in 2011. Additionally, the California closing fund is actually a nonrefundable income tax credit, whereas New Mexico's LEDA fund provides upfront dollars for land, building, and infrastructure, making it a far more valuable program to businesses considering expanding or relocating.

### **PERFORMANCE IMPLICATIONS**

EDD reports the agency, and its finance development team in particular, relies heavily on funds appropriated for LEDA projects for its performance measures related to job creation. In the first two quarters of FY15, LEDA funds supported the creation of over 2,000 new jobs.

### **RELATIONSHIP**

This bill relates to an appropriation in the General Appropriations Act, partially duplicating the Legislative Finance Committee budget recommendation to increase LEDA funding through a \$30 million nonrecurring special appropriation, and essentially duplicating the executive budget recommendation to increase LEDA funding through a \$25 million nonrecurring special appropriation and a \$25 million capital outlay appropriation.

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APPENDIX A

Local Economic Development Act (LEDA) Expenditures for FY14					
Company	Project Description/Use of Funds	City/County as Fiscal Agent	Award Amount (in thousands)	New Jobs	Retained Jobs
Martinez Meats	Meat processing facility - infrastructure improvements for cooler addition	San Miguel County	\$75.0	3	8
Raytheon	Missile systems company - architectural services for a warehouse expansion	Navajo Nation/Dine	\$200.0		42
First Research Science & Tech (FRST)	Unmanned vehicles - designer, manufacturer, and assembler of unmanned aerial, ground, and maritime systems for military and civilian applications	Alamogordo	\$250.0	24	
Eclipse	Aviation manufacturing and assembly – facility and project development costs	Albuquerque	\$397.0	100	
Intergalactica	Food processing facility - refurbishment of existing building into a certified food processing establishment/infrastructure	San Miguel County	\$15.0	1	
Canon ITS	Technical and customer service facility – real property and project development costs	Albuquerque	\$250.0	150	
DHF	Metal manufacturing - renovations and infrastructure improvements to facility	Rio Rancho	\$200.0	50	
Taos County Economic Development Corporation	Commercial food kitchen - improvements to floor and roof to meet USDA standards	Taos	\$100.0	20	40
Luna Theater	Historic theater/cultural facility initiative - complete the renovation to existing building	Clayton	\$100.0		2
CN Wire	Manufacturing - copper wire facility	Las Cruces	\$1,713.0	195	
<b>Totals</b>			<b>\$3,300.0</b>	<b>543</b>	<b>92</b>

Source: Economic Development Department

APPENDIX B

Local Economic Development Act (LEDA) Obligations for FY15						
Company or Project Code Name	Industry	Project Description/ Use of Funds	City/County as Fiscal Agent	Projected Private Capital Investment (in thousands)	Allocated Amount (in thousands)	Projected Number of New Direct Jobs
Accurate Machine and Tool	Manufacturer	Land acquisition	Los Lunas	\$5,000.0	\$400.0	200
Google	Municipal property improvement	Infrastructure/utility improvements	Moriarty	\$15,000.0	\$995.2	125
PreCheck	Data center expansion	Infrastructure improvements for fire and electrical upgrades	Otero	\$200.0	\$75.0	6
Neptune Aviation	Aviation	Tenant improvements	Otero	\$18,000.0	\$200.0	5
NM Poles	Manufacturer of railroad ties and telephone poles; has mill in operation	Tenant improvements	Otero	\$350.0	\$75.0	18
SF Brewing	Manufacturer/brewery	Water/waste water facility, connection, and sewer line extension	Santa Fe County	\$12,000.0	\$250.0	105
PESCO	Manufacturer	Building of final assembly area, paint room, and sand blast room	Farmington	\$3,000.0	\$500.0	125
CN Wire	Wire manufacturer	Second tranche from FY 14 allocation	Dona Ana County	TBD	\$1,037.0	195
Franco Foods	Manufacturer/food processing	Tenant improvements	Las Cruces	\$3,000.0	\$75.0	50
Certoplast	Manufacturer - automotive wire harness tapes	Land, building, or infrastructure/tenant improvements	Las Cruces	\$5,000.0	\$75.0	100
Preferred Produce	Manufacturer/food processing	Greenhouse expansion, building to include heating and cooling	Luna County	\$200.0	\$135.0	10
Lyceum Theater, Lovington Theater, and Silco Theater	Historic theater initiative	Digital conversion infrastructure improvements/upgrades	Clovis, Lovington, and Silver City	\$900.0	\$300.0	3
NGL	Transload facility	Infrastructure/utility improvements	Milan	\$52,000.0	\$1,200.0	100
Flagship Foods	Manufacturer/food processing	Electrical upgrades	Bernalillo County	\$11,000.0	\$150.0	300
Casados	Manufacturer	Tenant improvements	Otero County	\$3,000.0	\$500.0	100
S&P Data	Call center	Tenant improvements	Rio Rancho	\$5,000.0	\$500.0	425
Strategic Aerospace International, LTD	Aviation	Overlay two existing taxiways, widen one taxiway at the Roswell Air Center	Roswell	\$400.0	\$100.0	25
<b>Current Totals as of October 2014</b>				<b>\$134,050.0</b>	<b>\$6,567.3</b>	<b>1697</b>

Source: Economic Development Department