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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/16  
 SPONSOR Fajardo LAST UPDATED 2/8/16 HB 217  
 SHORT TITLE Economic Development Corporation Act SB \_\_\_\_\_  
 ANALYST Clark

### APPROPRIATION (dollars in thousands)

Appropriation					Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18	FY19	FY20		
	\$2,000.0				Recurring	General Fund

Parenthesis ( ) indicate expenditure decreases

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18	FY19	FY20		
	Unknown					

Parenthesis ( ) indicate revenue decreases

Relates to Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Economic Development Department (EDD)

Department of Finance and Administration (DFA)

### SUMMARY

#### Synopsis of Bill

House Bill 217 appropriates \$2 million from the general fund to the Economic Development Department (EDD) for expenditure in fiscal year 2017 for the corporation created by the Economic Development Corporation Act (aka Economic Development Partnership).

## **FISCAL IMPLICATIONS**

The appropriation of \$2 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2017 shall revert to the general fund.

The revenue implications are unknown, but increased advertising and other marketing of the state to businesses might result in additional job growth the state would not otherwise achieve. However, without a thorough analysis of economic development tax expenditures, currently infeasible with existing reporting requirements, it is impossible to determine whether the state would incur a net gain or net loss in tax revenues for each additional job created.

## **SIGNIFICANT ISSUES**

The New Mexico Economic Development Partnership was created in 2003 as a nonprofit organization to recruit companies and promote New Mexico to businesses outside the state. Most communities throughout the state do not have sufficient staffing levels or budgets to facilitate business recruitment and rely on the Economic Development Partnership to provide this function. The organization receives nearly its entire operating budget through a contract with EDD but increased private fundraising efforts in recent years.

In FY15, the Economic Development Partnership reported the lowest number of jobs created in a decade, unexpected given the organization's strong performance in FY14. Many of the business recruitment projects the Economic Development Partnership handles take many months or more than a year from inception to announcement, but the results were again at odds with the level of Local Economic Development Act (LEDA) funding the Legislature provided in FY15 given that LEDA is often cited as a key business recruitment tool. However, the organization had extremely limited funds to advertise in FY15, and LFC has noted it might be useful to provide additional funding to advertise the state to businesses given the significant investment in LEDA. Additionally, the Economic Development Partnership remains a moderately cost-effective job creation program on a cost-per-job basis.

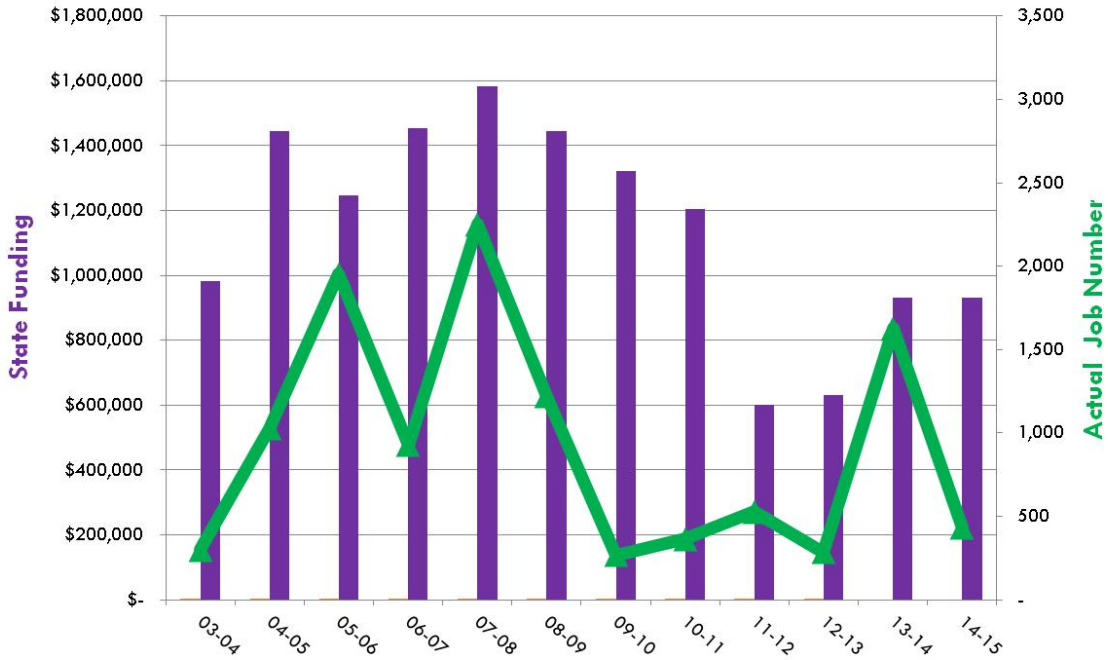
The best method the state can employ to bring companies into New Mexico is to market itself and the recent tax reductions and tax incentives, according to four site selectors that visited the state during FY15 at the behest of the Economic Development Partnership. The site selectors praised the state's incentive package but advised they were not aware of the complete array of incentives available until they received briefings during their stay.

For FY16, the Legislature appropriated an additional \$250 thousand for the Economic Development Partnership, for a total of \$1.18 million, to market the state. LFC has encouraged the organization to work with the Tourism Department to use the "New Mexico True" brand so all state advertising is coordinated under a single brand image.

## **PERFORMANCE IMPLICATIONS**

As noted in Fiscal Implications, the additional funding proposed by this bill might generate an increase in job creation, but it is difficult to estimate how many jobs might be created with a given level of funding. EDD contends there is no relationship between funding for the organization and job creation. However, the Economic Development Partnership previously

supplied the following chart, and apart from the significant drop in job creation in FY10 and FY11, which marked the depth of the recession and a time when business expansions and relocations were minimal, it appears a correlation exists, with FY15 appearing as an outlier.



**RELATIONSHIP**

This bill relates to the House version of the General Appropriation Act, which contains a recurring appropriation of \$1.18 million for the Economic Development Partnership.

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