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FISCAL IMPACT REPORT

ORIGINAL DATE 1/30/16
LAST UPDATED 2/8/16 **HB** 227

SPONSOR Lewis

SHORT TITLE Marketing to Attract Out-of-State Employers **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

Duplicates SB 221
 Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 227 appropriates \$2 million from the general fund to the Economic Development Department (EDD) to develop a cooperative marketing program to attract out-of-state businesses, offer incentives for local governments and economic development organizations (EDOs) to participate, employ consistent brand messaging, and measure and report effectiveness.

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

LFC has often noted in the last several years economic development efforts across the state are fragmented and at times conflicting or duplicative. This bill has the potential to remove some fragmentation and duplication; however, the bill provides EDD enough flexibility as to how to use the funds that the agency could introduce new conflict and duplication depending on how the department chooses to implement the program.

The New Mexico Economic Development Partnership was created in 2003 as a nonprofit organization pursuant to the Economic Development Corporation Act 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 for a significant business recruitment operation and rely on the Economic Development Partnership to provide this function. The organization receives nearly its entire operating budget through a contract with EDD, and if the agency used the funding in this bill to create an in-house business recruitment function, it would duplicate and potentially conflict with the recruitment performed by the Economic Development Partnership. However, EDD could use the additional business recruitment funding for the nonprofit organization, avoiding the potential conflict.

The bill also has the potential to reduce fragmentation and duplication by tasking EDD to employ consistent brand messaging, an area in need of significant improvement. LFC has recommended in multiple reports that EDD, in coordination with the Economic Development Partnership and economic development organizations across the state, should either create a unified brand and consistent advertising templates or adopt the Tourism Department's "New Mexico True" brand. Over the last few years, the tourism industry has rallied behind this unified brand identity, with nearly 30 communities and numerous private businesses using this brand. A unified brand and consistent messaging can significantly improve brand recognition for New Mexico, and it allows the state to leverage resources and benefit from local and private advertising dollars.

Several years ago, EDD had a cooperative advertising program in place that provided matching funds to local communities to advertise, but this bill proposes to use the funds to attract out-of-state businesses and offer incentives to local governments and EDOs to participate. The bill allows EDD to decide how much of the funding would be used for business recruitment and how much would be set aside for matching funds. The bill also does not specify if funds used for business recruitment but not used as matching funds must be used to fund an in-house recruitment program or provide additional funding to the Economic Development Partnership. If

EDD chose to use all funding remaining after developing a brand (or adopting “New Mexico True”) to provide matching funding and/or provide additional funding for the Economic Development Partnership, that would avoid any conflict or duplication of resources, but it leaves the decision completely at the discretion of EDD.

EDD provided the following historical information regarding its prior cooperative marketing program.

EDD administered a cooperative advertising program similar to that provided for in this bill. According to records found from 2007 and 2008, EDD had approximately \$425 thousand as a recurring expense in the agency’s base budget for this program.

In 2008, EDD reported it awarded approximately 40 awards at an estimated \$8,000 to \$10 thousand each. The program was used as a matching fund to help communities maximize their advertising dollars. In 2008, the agency reported 68 percent of the funds were awarded to rural communities versus 32 percent for urban communities. Rural communities had the greatest need for the matching dollars as the smaller, rural communities did not have funds available to promote their communities.

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 Economic Development Partnership to recruit businesses and resulting job creation. However, the Economic Development Partnership previously reported data to LFC staff that seems to indicate some correlation exists. Presumably, the funding provided by this bill would similarly increase job creation to some degree.

ADMINISTRATIVE IMPLICATIONS

This bill could have a significant administrative impact on EDD depending on how the agency chooses to implement the bill, as the agency currently has no business recruitment program and instead relies on the Economic Development Partnership for this function. Without funding for additional FTE built into the department’s operating budget, it could place a significant strain on agency resources if EDD chooses to develop an in-house business recruitment function. The funding in the bill would address financial resources for FY17, but personnel resources could be an issue.

CONFLICT, DUPLICATION, RELATIONSHIP

This bill duplicates SB 221.

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 to recruit companies and market New Mexico to out-of-state businesses. This bill could create the potential for conflicting and duplicative efforts.

OTHER SUBSTANTIVE ISSUES

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.

JC/jle/jo/jle