FISCAL IMPACT REPORT

		ORIGINAL DATE	1/27/16		
SPONSOR	Campos	**LAST UPDATED**		**HB**	
SHORT TITLE	Local Economic Development Act Projects			**SB**	187
				ANALYST	Clark

APPROPRIATION (dollars in thousands)

Appropriation					Recurring or Nonrecurring	Fund Affected
FY16	**FY17**	**FY18**	**FY19**	**FY20**		
	$50,000.0				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

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

Senate Bill 187 appropriates $50 million from the general fund to the Economic Development Department (EDD) for expenditure in fiscal year 2017 and subsequent fiscal years for projects pursuant to the Local Economic Development Act (LEDA).

FISCAL IMPLICATIONS

The appropriation of $50 million contained in this bill is a recurring 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.

The revenue implications are unknown, but the appropriation contained in this bill could assist economic development efforts, which in turn could result in increased job creation and business investment. 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

At EDD's budget hearing at the House Appropriations and Finance Committee in January 2016, the secretary testified the agency currently has nearly $50 million remaining in LEDA funds for use in fiscal year 2016 and subsequent years. EDD reports for FY15, the agency expended $6,579,500 pursuant to LEDA. That expenditure leveraged $67,139,000 in announced private sector investment and resulted in the announcement of 2,608 net new jobs.

The Legislature provided a "full toolbox" of incentives for economic development over the last few years to make New Mexico a more financially attractive location for business, including significantly increasing funding for LEDA projects in 2014 and 2015, providing a total of $65 million. LEDA can be used to help existing local businesses expand, but it is traditionally used as a "closing fund" to recruit businesses, and New Mexico's fund is now one of the largest in the western United States, eclipsing the closing fund in Arizona and matching the fund in Texas. New Mexico, on a per capita basis, funded LEDA projects for FY16 and beyond by 15 times as much as Texas.

However, the state's job growth rate remains relatively low, and EDD assisted in the creation of fewer jobs in FY15 than in FY14 despite spending about twice as much in LEDA funds. This raises concerns the department might have given LEDA funding to companies that would have located in the state regardless of the incentive, or that the increased funding led to larger awards for similar size or smaller projects.

PERFORMANCE IMPLICATIONS

Given the recent rate of expenditure of LEDA funds and the relationship between LEDA funds and EDD job creation from FY14 to FY15, there is currently no evidence the appropriation would improve the agency's performance results in FY17.

OTHER SUBSTANTIVE ISSUES

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. LFC staff reviewed all LEDA contracts for funds disbursed by EDD in FY14 and found most clawback provisions required repayments exactly proportional to the percent of jobs that were not created. However, a few clawback provisions were determined to be inadequate, requiring disproportionately smaller repayments than the percent of jobs that were not created. For example, the clawback provision in the Eclipse contract requires repayment of as little as 10 percent of the LEDA funds received, leaving up to 90 percent of the state funds at risk and without any return to the state if the company does not create new jobs.

JC/jo/jle