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FISCAL IMPACT REPORT

SPONSOR SCORC ORIGINAL DATE 3/03/17
 LAST UPDATED 3/17/17 HB _____

SHORT TITLE Enhanced Enterprise Zone SB 425/SCORCS/aSJC

ANALYST Martinez

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
See Fiscal Impact	See Fiscal Impact	See Fiscal Impact	See Fiscal Impact

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
 Economic Development Department

SUMMARY

Synopsis of Senate Judiciary Committee Amendment

The Senate Judiciary amendment deletes Section 2, the purpose section of SB425. The amendment also deletes “Multiple Jurisdictions,” from the title of Section 5.

Synopsis of Bill

Senate Corporations and Transportation Committee Substitute for SB425 allows local governments to establish Enhanced Enterprise Zones (EEZ) as an economic tool. The purposes of EEZs are broad and may be used in “economically underperforming areas.” The incentive to participate in an EZZ is the abatement of the collection of property taxes for the improvements to the properties in the zone for a period not greater than 10 years. The collection of the increased property tax valuation is phased in over a three year period following the end of the abatement.

An enhanced enterprise zone may be rejected by a county only for good cause as reflected by the hearing record of the county commission. The abatement of increased property taxes from the improvements in the district shall not be the sole reason for the denial of the enhanced enterprise zone designated by the county.

FISCAL IMPLICATIONS

The fiscal implications cannot be quantified in a manner that applies to all EEZs. The sole power to create an EEZ is vested in the local government. The local government must find the proposed zone is economically underperforming. Therefore, the property taxes are less than optimal for the zone's potential. Abatement applies only to the difference between the current property taxes and the increased property taxes that would be due on the improved properties. Therefore, property tax revenue would not decrease for any of the taxing districts in EEZ. And property tax would not increase on the improved properties until the abatement period ends. Also, the length of the abatement period is established by the local government, but cannot exceed 10 years. Therefore, this is a zero cost tool.

SIGNIFICANT ISSUES

Section 8 of SB425, "Abatement of Collection of Increased Property Taxes," may be unconstitutional according to the following:

- Article 4, Section 32, "Remission of debts due state or municipalities."
- Article 8, Section 1, "Levy to be proportionate to value; uniform and equal taxes; percentage of value taxed; limitation on annual valuation increases."

The following significant issues were provided by the Economic Development Department:

This is a geographically-focused tool for economic development, which differs from most economic development programs that are company or project focused. It can be used in urban or rural areas at the discretion of the local government and can be used for new development or redevelopment. It does recognize that residential uses are often intermingled with commercial uses and the local government can allow individual residents to participate.

It also permits contiguous landowners to petition for inclusion. The issue of "contiguity" has been litigated in New Mexico, generally in annexation cases, and the bill addresses the meaning of physical contiguity.

An increase in "revenue-producing enhanced enterprises" is one of the purposes of creating an EEZ and that phrase is defined very broadly. In order to create an EEZ, both municipal and county approval is required for zones in incorporated areas. This is a tool used in many other states, including our surrounding states, and has been successful.

This law has a delayed repeal of July 1, 2032.

PERFORMANCE IMPLICATIONS

The New Mexico Economic Development Corporation reports that between 25 and 30% of the business relocation opportunities the state receives are lost due to a lack of available commercial buildings. One intent of an EEZ is to encourage "speculative development" that would improve our chances to attract more companies to the state. Other states, such as New York, advertise their enterprise zone programs intensely.

Other programs, such as Metropolitan Redevelopment Areas (MRAs) and the existing enterprise zone legislation, have more stringent requirements in terms of extreme poverty and severely blighted conditions which greatly limits potential areas for development. The proposed EEZ legislation provides more flexibility for local governments in choosing economically underperforming areas for an EEZ.

The Economic Development Department will assist local governments upon request and local governments will report the results of the establishment of EEZ to the department. The county assessors will have to appraise properties in the zones using standard appraisal methods and the county treasurers will have to cooperate in abating the collection of the increased valuation.

ADMINISTRATIVE IMPLICATIONS

The department believes existing staff is adequate to assist local governments and to assess the results of EEZ.

OTHER SUBSTANTIVE ISSUES

The issue of whether the existing enterprise zone statutes should be repealed and replaced is unresolved. See, 1978 NMSA §5-9-1 et seq. The purpose of the existing enterprise zone law is significantly more restrictive.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The local governments will not be able to establish enhanced enterprise zones, leaving the local government with minimal options or tools to improve economically underperforming areas.

JM/jle/al/sb