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FISCAL IMPACT REPORT

SPONSOR Padilla ORIGINAL DATE 1/22/19
LAST UPDATED _____ HB _____
SHORT TITLE Extend Date on Certain State Projects SB 37
ANALYST Martinez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	NFI	NFI	NFI	NFI	NFI

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority
Economic Development Department

SUMMARY

Synopsis of Bill

SB 37 extends the date from July 1, 2019 to July 1, 2023, in which standard projects receiving financial assistance from the Economic Development Revolving Fund must first be approved by law before the New Mexico Finance Authority (NMFA) can approve funding.

FISCAL IMPLICATIONS

SB37 carries no appropriation and will not impact the operational budget of the New Mexico Finance Authority.

The following was submitted by the New Mexico Finance Authority:

SB37 partners NMFA with the New Mexico Economic Development Department (EDD) in the administration of the Act which authorizes a broad array of finance tools to stimulate economic growth statewide. NMFA funds the administration of its programs from interest earnings from the loans made under the program. This bill is not expected to increase the costs of administration.

SIGNIFICANT ISSUES

The following was submitted by the New Mexico Finance Authority:

SB37 requires that projects funded from the Economic Development Revolving Fund (EDRF) must receive legislative authorization prior to NMFA making a loan for the project. Currently, only one program authorized by the Act funds projects from the EDRF. This program, the Smart Money Loan Participation Program, allows NMFA to purchase a portion of a loan originated by local banks in New Mexico for projects that create jobs and stimulate economic development.

In 2011, in anticipation of receiving \$13.2 million in federal funds from the State Small Business Credit Initiative, the legislature approved a temporary provision that allows NMFA to make business loans from the EDRF for “standard” projects without first receiving specific project authorization from the legislature. This sunset date for this temporary provision has been extended twice and the current sunset date of the temporary provision is June 30, 2019. After this date, projects must first receive specific legislative authorization for NMFA to make an otherwise qualified loan.

SB 37 extends the deadline for the sunset to June 30, 2023. The impact of SB 37 is that the state can provide faster loan processing and timely lending decisions that meet the business needs of the applicants.

PERFORMANCE IMPLICATIONS

The following was submitted by the New Mexico Finance Authority:

How often applications are accepted, processed and awarded results in a greater utilization of funds.

In 2006, the NMFA began participating in bank loans under the Smart Money Loan Participation program. From 2006 through 2011, the Legislature authorized 185 projects through five authorization bills. In 2007, the Legislature did not pass an authorization bill and the 169 projects presented on that bill were unable to submit applications for funding. As a result, banks and businesses lost confidence that the NMFA would be able to assist them in their expansion needs. Ultimately, under the Legislative Authorization process, NMFA had 185 projects authorized, 11 projects approved and three projects closed totaling approximately \$3.8 million.

Legislation approved in 2011 suspended the need for prior legislative authorization which gave NMFA and NMEDD the ability to consider loan applications year round. This temporary suspension was extended in 2013 and 2016. Since 2011, NMFA has approved 24 projects, 18 of which have closed, for a total of \$10.2 million. Extending the suspension authorized under SB 37 will allow NMFA staff to continue meeting the needs of projects that may need funding prior to the next legislative session. With the temporary provision in place, NMFA’s banking partners throughout the State have been able to depend on business-friendly decisions and time sensitive closings with the use of these funds without waiting on a legislative session to approve the projects.

ADMINISTRATIVE IMPLICATIONS

The following was submitted by the New Mexico Finance Authority:

Since the inception of the Act, NMFA has developed a comprehensive, three-tiered loan underwriting and approval process to ensure quality loans. SB 37 will allow the NMFA to continue to meet businesses' needs more efficiently and timely. Banks, or businesses who have never been clients of the NMFA, can often be negatively impacted by the timing of obtaining legislative authorization. Because these projects are often brought forward during a normal business cycle and the monetary needs are usually immediate, the ability for NMFA to lower the cost of capital is often delayed or prevented from source of capital because they were not legislatively authorized under the current statutory process.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB 203 which explicitly provides that the Statewide Economic Development Act include agricultural enterprises.

TECHNICAL ISSUES

The NMFA remains bound by statute in financing projects for eligible entities as provided for under the provisions of §6-25-3(O) and §6-25-3(U), which define “Standard Project” and “State Project,” respectively.

SB 37 does not change the legislative authorization requirements for “State Projects” as these projects do not meet the traditional anti-donation analyses and require legislative authorization prior to being considered for funding from the EDRF.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If SB37 is not enacted, as of July 1, 2019, all standard projects receiving financing assistance from the Economic Development Revolving Fund will need to approved by legislative action and signed in to law before the New Mexico Finance Authority can approve funding.

The following was submitted by the New Mexico Finance Authority:

NMFA will not be able to consider loan applications in a business-friendly manner.

The Following was submitted by the Economic Development Department:

Failure to enact this Bill will mean that economic development projects that need to access funds from the loan participation program will need to wait for the annual Legislative Session in order to receive final loan approval. Requiring a project approval to be delayed by up to twelve months will mean that commercial banking partners are significantly less likely to utilize the program, thereby defeating the original intent of the Statewide Economic Development Act. Moreover, the criteria and requirements under which the Authority may engage in loans with private entities, including loan criteria and collateral security requirements, has been incorporated into its Loan Participation Lending and Credit Policy, with oversight provided by the Economic Development Committee and the final Board oversight and approval prior to loan closing.