Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Serrato	**ORIGINAL DATE**	2/3/2025
SHORT TITLE	Child Care Facility Qualifying Entities	**BILL NUMBER**	House Bill 227
		ANALYST	Dinces

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EDD	**No fiscal impact**	**No fiscal impact**	**No fiscal impact**		Recurring	**General Fund**

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to House Bill 135 and Senate Bill 181

Sources of Information

LFC Files

Agency Analysis Received From
Early Childhood Education and Care Department (ECECD)
Economic Development Department (EDD)
New Mexico Attorney General (NMAG)

SUMMARY

Synopsis of House Bill 227

House Bill 227 (HB 227) would allow childcare providers to apply for and receive Local Economic Development Act (LEDA) funds. The Local Economic Development Act (“LEDA”), NMSA 1978, Section 5-10-1 to -17 (2021), grants authority to EDD to administer grants to local governments to assist in expanding or relocating businesses defined as a “qualified entity” that will stimulate economic development and produce public benefits pursuant to LEDA. The bill would include childcare providers as “qualified entities” and an exception to the rule that LEDA funds go to organizations that are involved with the production of a service, provided that most of the revenue generated from the service is from sources outside the state.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

There are likely no direct fiscal implications of this bill as it expands eligibility for LEDA but does not increase the appropriations to the program.

SIGNIFICANT ISSUES

LEDA primarily passes state funding through local governments to businesses for land, building, and lease costs. However, both the LFC and executive budget recommendation include $10 million for low or no interest loans to childcare providers for capital improvements to increase infant and toddler classroom capacity. These capital loans will likely have similar impacts to childcare but will be targeted to childcare providers only.

Making childcare providers eligible to receive LEDA funds could help increase the number of childcare providers or the number of provider locations, which in the long run may help to increase the workforce; however the impact of this would likely be relatively small.

Childcare providers already receive many subsidies from the state. These include:

1. Childcare assistance, which uses federal and state funds to provide free or low-cost childcare to families making below 400 percent of the federal poverty level;
2. New low or no cost capital loans (see paragraph above); and
3. Gross receipts tax exemption for private childcare providers.

The Economic Development Department (EDD) highlights how childcare has not been considered an economic base industry:

> The intent of LEDA is to support economic development projects and is based on the core economic development concept of growing the economic-base to create and foster economic diversity and wealth in a community. Economic-base companies are those that export at least 50 percent of their product or services to a client-base outside the state, thereby infusing the economy with new money rather than recycling money that already exists within the economy, such as with retail industry. The best example of economic-base industry is manufacturing. Traditionally and historically, childcare facilities are not considered an economic-base industry. Supporting economic-base industry results in capital investment, sales from a client-base outside the state, and new jobs, which all contribute to the tax-base. This increased economic activity then fuels growth in the other non-economic base sectors such as retail, hospitality, and healthcare.

ADMINISTRATIVE IMPLICATIONS

EDD mentions that if many childcare providers begin to seek LEDA funds, then EDD may need additional staff to support managing additional project approval and compliance. However, as EDD would only need new staff if LEDA expanded, this bill alone would likely not increase EDD's administrative workload.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to Senate Bill 181 ("New Qualifying Entities in LEDA") which also seeks to add to the "qualified entities" list under LEDA. This bill also relates to House Bill 135 ("Housing Study Requirement for LEDA Funds") which proposes to require a "qualified entity" to conduct a housing study prior to applying for public support.

TECHNICAL ISSUES

NMAG mentions that while the perceived purpose of the bill proposes to define child care facilities as "qualified entities" under LEDA, HB227 also adds "nonprofit organization" as an approved legal status for a qualified entity. With that change, the nonprofit legal status expands to each already enumerated qualified entity.

SD/rl/hj