**BACKGROUNDER**

# Local Economic Development Act (LEDA)

**What is LEDA?**

LEDA, the Local Economic Development Act, is a law that established New Mexico's Job Creation Fund (or deal-closing fund). More than 30 states use Job Creation Funds, in conjunction with other incentives, to develop a competitive package to help existing employers expand and to attract new employers to the state.

In 1994, New Mexico voters approved an amendment to the state Constitution that enabled local communities to offer limited, discretionary financial participation in qualified economic development projects. The State Legislature then passed the Local Economic Development Act, which provided the legal framework for local governments to administer their LEDA projects. Eighty-three New Mexico communities have adopted a Local Economic Development Act.

**Who qualifies for LEDA funds?**

- LEDA closing funds are targeted toward employers that can demonstrate additional funding is needed to close a competitive cost gap relative to other states or cities that are vying for the same economic development project.
- Many factors are taken into account when determining whether to award LEDA funds, including the number of projected jobs, the amount of money a company is investing, and expenditures for local goods and services. The focus is on a "double bottom line" that takes into account the economic impact of the project as well as its benefit to the community. Ideally, there should be a 10-to-1 ratio of private investment to LEDA funds.
- New or existing employers may use LEDA funds to assist with land acquisition, building renovations and infrastructure needs. LEDA dollars cannot be used for working capital, operating costs or equipment.
- The business must create full-time, private-sector jobs.

**What is the process for approving funds?**

- The employer signs a formal Project Participation Agreement with the local government that outlines the amount of investment it intends to make and the number of jobs it plans to create within a specified timeframe, among other details.
- The local government must adopt the project by ordinance, attaching the application, Project Participation Agreement and proof of notice to the public.
- The state enters into an agreement with the municipality or county to transfer funds for the economic development project. The local government serves as the fiscal agent between the state and the company. The state is not a direct party in any agreements with the company.

**What safeguards and protections are in place?**

- The employer provides some form of security (such as a letter of credit or mortgage) to cover any mutually-agreed upon penalties to protect taxpayers if a company fails to live up to its projections of investment and job creation. Often referred to as "clawbacks," these penalties are typically calculated on a sliding scale and are tied to the number of jobs created and the length of time the company has been in operation.
- LEDA expenditures are based on post-performance metrics only. After the company submits qualifying expenses, the local government provides reimbursement.
- Because LEDA funds can only be invested in hard assets such as land, buildings and infrastructure, the state's investment stays in New Mexico, even if the company were to go out of business or move away.

**How is the LEDA fund financed?**

- The LEDA Job Creation Fund is financed via the state budgeting process and approved by the State Legislature. Financing usually draws from the general fund, capital outlay fund, and/or severance tax bonds. Municipalities and counties can pass a local option 1/8-cent gross receipts tax to provide funds for LEDA projects (must be approved by voters).

**Why does the LEDA fund need to be maintained?**

- Job Creation Funds are a proven method for attracting and expanding employers. They are an important tool as part of a long-term strategy to diversify New Mexico's economy and create new jobs for New Mexico residents.
- Albuquerque Economic Development recommends that the LEDA fund be maintained at $50 million and that the fund should be recurring and nonreverting. This level will help ensure that adequate funding is in place for the economic development projects for which our state is competing.
- Speed of approval can be a key factor in a competitive process when negotiating with employers for location or expansion. Ensuring that adequate LEDA funds are on hand for immediate awards can make the difference when putting together a competitive package for an employer that is considering several states for site location or expansion.