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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/09

SPONSOR Leavell LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Business Incubator Programs SB 14

ANALYST Lucero

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	\$110.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Economic Development Department (EDD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 14 appropriates one hundred the thousand dollars (\$110,000) from the general fund to Economic Development Department (EDD) to support business incubator programs.

### FISCAL IMPLICATIONS

According to the December 2008 revenue estimate, FY10 recurring revenue will only support a base expenditure level that is \$293 million, or 2.6 percent, less than the FY09 appropriation. All appropriations outside of the general appropriation act will be viewed in this declining revenue context.

The appropriation of hundred then thousand dollars (\$110,000) contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of 2010 shall revert to the general fund.

## **SIGNIFICANT ISSUES**

EDD reports that today, few federal programs provide this type of financial assistance, leaning more toward funding for capital improvements and other “hard” costs for economic development. State and local funding sources must fill the gap in the business incubators’ operating budgets (see paragraph below). Rural communities certainly have the most difficulty in providing these funds. There are no alternative funding sources for this program.

According to the National Business Incubation Association (NBIA), 94 percent of the incubators in North America are nonprofit entities. Business incubators by definition and purpose provide inexpensive facilities and services to foster the growth of their client companies and, therefore, are not profitable. In fact NBIA, through its member survey forum, states that on average incubators receive 25 percent of their funding from contributions. This percentage is frequently in smaller, rural communities. Eight rural New Mexico towns and one Pueblo are researching, planning or developing a business incubator. This appropriation is critical to their continued progress. Again, according to NBIA, the process of planning and building an incubator facility takes an average of 18 months before the doors open and clients can be admitted, generating revenue to the incubator.

## **PERFORMANCE IMPLICATIONS**

Business Incubators contribute to EDD’s mission of job and wealth creation. In addition, business incubators contribute to several of EDD’s performance measures, including rural and urban job creation, and number of business expansions. The incubators also assist their clients in accessing Job Training Incentive Program (JTIP) funds and other state incentive programs.

## **ADMINISTRATIVE IMPLICATIONS**

There will be no administrative implications for EDD or its operating budget as two staff persons already work with the program and administer currently appropriated funds.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

The bill relates to an appropriation in the General Appropriation Act for the EDD’s operating budget. The GAA includes \$110 thousand, in recurring funds, for the business incubator program.

The bill also relates to small business development centers (SBDC), funded through universities, which provide services to businesses in all stages of growth, duplicating some work of incubators. Small business development centers are affiliated with the federal Small Business Administration. There are 19 SBDCs in New Mexico.

## **OTHER SUBSTANTIVE ISSUES**

A survey by the National Business Incubation Association indicates that 87 percent of business incubator clients remain in business after graduating – a far higher success rate than business start-ups who “go it alone.” The same survey reports that 84 percent of the incubator clients remain in the community after graduation. In New Mexico more than 90 percent of all businesses statewide are considered “small business,” making entrepreneurship and small business support critical to the State’s economic well-being.

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Further, a recent study by the US Census Bureau and the Marion Kauffman Foundation found that the United States would have been experiencing negative job growth years ago were it not for small businesses.

According to EDD, New Mexico's business incubators are having a positive impact on their regional economies and this is shown in the table below.

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