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FISCAL IMPACT REPORT

ORIGINAL DATE
LAST UPDATED

SPONSOR Stapleton HB 955/aHBIC

SHORT TITLE Minority Business Assistance Act SB _____

ANALYST Lucero

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non- Rec	Fund Affected
Total	Indeterminate	Indeterminate	Indeterminate		Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of Workforce Training and Development (OWTD)
 Indian Affairs Department (IAD)
 New Mexico Department of Labor (NMDOL)
 New Mexico Economic Development Department (NMEDD)
 Office of African American Affairs (OAAA)

SUMMARY

Synopsis of HBIC Amendment

House Business and Industry Committee amendment to HB955;

- Strikes Section 2 in its entirety which addresses findings identified by the legislature.
- Under the definition of department, strikes labor and inserts Economic Development
- Adds that the Economic Development Department is to work in collaboration with the labor department on the development and implementation of the program.
- Adds Section 5 which creates a non-reverting fund titled “The minority business assistance fund”. The legislature shall have appropriation authority over the fund for the purpose of carrying out the provision of the Minority Business Assistance Act.

Synopsis of Original Bill

House Bill 955 proposes to create the Minority Business Assistance Act to provide mentorship and business skills development to bring together experienced businessmen and business women together with small minority businesses in order for the minority businesses to acquire the expertise needed to grow profitable competitive businesses. It charges the New Mexico

Department of Labor (NMDOL) with coordinating efforts to seek out potential minority businesses and individuals with well established business skills to mentor or assist minority business. It also charges NMDOL with developing an outreach and marketing program so that minority business may become aware of the program; develop training materials and in-house training expertise. The Act also mandates all state agencies to cooperate with NMDOL in carrying out the provisions of the Act. Finally, it establishes a grant program to aid minority businesses in acquiring expertise to enhance competitiveness.

FISCAL IMPLICATIONS

As amended, the Economic Development Department would be the department responsible for program implementation and oversight.

The amendment to the bill does not provide an appropriation or authorized FTEs to implement this new program. NMEDD is better positioned to provide this type of assistance to minority business owners; however, the department would require three additional FTEs to administer this new program. The estimated cost for these FTEs would be \$210,000 per year which includes benefits. Additionally, the cost of developing a data base registry would be approximately \$35,000 - \$50,000. The cost of maintaining this data base would be approximately \$15,000 per year.

The program would eventually increase the number of business expansions and start-ups which would yield additional gross receipts, income tax and state withholding taxes to the general fund.

HB 955 proposes that staff from NMDOL and volunteers from the community provide the services involved with a mentoring program as described in the bill. Also, the bill includes a description of a grant program for minority businesses and specifies that “to the extent money has been appropriated for such purposes”; however, the bill does not provide an appropriation or provide additional authorized FTEs to implement this new program. DOL currently lacks the necessary staff and resources to implement the objectives of the bill with its current budget.

The cost of implementing the program would be significant to DOL; however, the cost cannot be determined at this time.

HB 955 also vaguely charges “all state agencies” to cooperate with the DOL in executing the Act. Exactly what this responsibility constitutes is unclear, but it seems as though it has the potential to be a significant burden. In the case of Indian Affairs, current staffing levels prevent extensive involvement in the activities proscribed by the Act without additional personnel resources.

SIGNIFICANT ISSUES

As amended, the Department of Labor Department will collaborate with the Economic Development Department to:

1. Develop this program.
2. Facilitate the entrance of minority businesses into the marketplace.
3. Develop a process to identify businesses that would benefit from assistance in the areas of general business practice, accounting, ethics, technical expertise, marketing and governmental procurement.

4. Develop a registry of well-established individuals within those businesses, retirees and others that will volunteer as a mentor or otherwise assist minority businesses to: develop outreach and marketing, develop training materials, create a mentorship program, develop a grant program for minority business and secure the cooperation of other state agencies to assist this Act and volunteer.

Currently, the economic development department's Your Homefield Advantage Program is set-up to provide outreach to New Mexico businesses. Your Homefield Advantage team member visit approximately 300 businesses per year and assist them with accessing the state incentives, international trade opportunities, technical assistance and alternative financing programs. The department is poised to provide outreach services to minority businesses. However, the department would require an additional FTE to market this program to minority businesses.

The Minority Business Assistance Act would require the department to develop a registry of businesses, individuals, retirees and other persons, volunteer to assist minority business owners. The department has a rudimentary data base to identify manufacturers to contact and visit in rural New Mexico. This act would require a new data base that would require the department to monitor the status of business and provide technical assistance to assist in their expansion. The data would have to have substantial information to mentor and assist minority small businesses.

The department would be required to develop training materials, outreach materials and a marketing plan to target minority businesses owners and entrepreneurs to provide technical assistance required by the Minority Small Business Assistance Act. Small business owners and entrepreneurs tend to forego a business plan but it's essential in its operation and future outlook. In addition, minority owned small businesses may also experience language barriers, lack of financing or staff to cover aspects of business (i.e., sales, financials, HR) and/or lack experience with marketing, promotion, presentation (oral and written). These aspects are what hinder the small business from the competitive market and this legislation is proposing a mentorship program to address those areas.

Minority entrepreneurship has increased rapidly in recent years due to the availability of federal programs, information and resources targeted for minorities—including mentoring programs. Studies have shown that a minority entrepreneur's chances of successfully starting and growing a small business is greatly increased with the advice and guidance of a business mentor.

The bill should designate NMDOL as the designated department for the administration of any federal program or beneficiary of revenue from federal/charitable grants, donations, etc for minority businesses. Several federal agencies such as the Department of Commerce's Minority Business Development Agency (MBDA) provide federal assistance for programs which help minority business owners.

The Economic Development Department (EDD) states that small businesses in general tend to forego a business plan but it's essential to its operation and future success. In addition, minority owned small businesses may also experience language barriers, lack of financing or staff to cover aspects of business (i.e., sales, financials, HR) and/or lack experience with marketing, promotion, presentation (oral and written). These aspects are what hinder the small business from the competitive market and this legislation proposes a mentorship program to address those areas.

PERFORMANCE IMPLICATIONS

As amended, the Economic Development Department would be the department responsible for program implementation and oversight. With the growth in NM, both from small and large business, the economy is strong. This amended bill would provide the department additional resources and expertise to assist these businesses and entrepreneurs. These resources would enhance the department's mission of job creation and capital investment in New Mexico.

The Labor Department does not currently have the staff, expertise or funding to be the lead agency in this effort. The requirements of this Act are not entirely on point with DOL's vision and mission. This program might be more in line with the vision-mission of the Economic Development Department.

ADMINISTRATIVE IMPLICATIONS

As amended, the Economic Development Department would be the department responsible for program implementation and oversight. The administrative implications would require the New Mexico Economic Development department to employ three additional FTEs to administer this program. Additionally, the department would need to create a new data base to administer this act.

The Labor Department does not currently have the staff, expertise or funding to be the lead agency in this effort. Currently, NMDOL is operating under austerity measures due to recent cut backs in federal funding.

TECHNICAL ISSUES

The bill specifically mentions racial minorities but as eligible participants; however, females, and disabled persons could also benefit from mentorship services. Females and disabled persons are also considered to be populations in the minority.

Additionally, it is unclear whether non-profit firms that are organized to promote the interests of minorities, females, and physically or mentally disabled are eligible for services. Many non-profit groups could benefit from mentorship services.

The bill seems to be targeting existing New Mexico minority owned business; however, the bill does not address "start-up" business that are in still in the planning stages. Many costly mistakes could be avoided if mentorship services were available from the very beginning.

The bill does not specify what is to be considered when evaluating how much of a business ownership is owned by a specified minority group. Some states specify that at least 51% ownership interest is controlled by one or more minority persons.

OTHER SUBSTANTIVE ISSUES

New Mexico and United States Statistics for All Groups

Small business is an integral component of the New Mexico economy. According to the United States Small Business Administration, 96.1% of businesses in New Mexico are small business, each employing fewer than 500 people.¹ Under HB 955, only businesses with fewer than 20

¹ SBA FAQs: <http://app1.sba.gov/faqs/faqindex.cfm?areaID=24>

employees would qualify for services enumerated in the legislation. Approximately 85% of New Mexico businesses meet this threshold.²

Small businesses in the state employ about 57.7% of all non-farm private sector employees.³ Small businesses account for a far larger proportion of new job creation, estimated between 60 and 80 percent by the United States Census Bureau.⁴

Minority Business Ownership Statistics

Small business ownership is an important component of minority business ownership in the United States and New Mexico. According to the Minority Business Development Agency of the U.S. Commerce Department, 95% of firms owned by ethnic minorities tallied receipts of less than \$500,000 in 2002. For Native American business owners, 96% of businesses generated modest revenues characteristic of small businesses. Minorities in the United States were classified as the owners of more than 4 million firms in 2002.⁵

Still, minority rates of ownership do not coincide with population proportions in the United States. For example, Native Americans account for 1.4% of the population, but own only 0.9% of businesses owned. When measured by quantity of paid employees and total gross receipts, minority-owned businesses only account for 0.3% of each.⁶ In New Mexico, which is classified as a “majority-minority” state by the Census Bureau with a minority population of 57%, only 28.5% of businesses are minority owned.⁷

A number of programs currently exist which endeavor to meet the needs of minority small business entrepreneurs in New Mexico. Three entities which provide such services are as follows:

United States Small Business Administration (“SBA”): The SBA has a regional office in Albuquerque and provides a range of services to business owners, including loan guarantees. For the period ending July 30, 2006, the SBA provided loan guarantees worth \$92.3 million to 412 borrowers in NM. Nationally, about 22% of the SBA’s loan guarantees have been granted to minority-owned businesses.⁸

The other services offered by the SBA in New Mexico include providing management and technical assistance to small business owners in Albuquerque, Santa Fe, and Las Cruces. SBA can also aid business development for firms owned and controlled by socially and economically disadvantaged individuals who do business with the federal government. Finally, the SBA’s New Mexico website claims that the organization “makes a special effort to make its programs available to women, minorities and veterans.”⁹

New Mexico Department of Economic Development (“Economic Development”): Economic Development works with businesses in New Mexico to facilitate their growth. It also has served

² Page 221: http://www.sba.gov/idc/groups/public/documents/sba_homepage/economy2005.pdf

³ From the SBA: <http://www.sba.gov/advo/stats/profiles/02nm.pdf>

⁴ Ibid.

⁵ All statistics from: http://www.mdba.gov/minoritybizfacts/?bucket_id=789

⁶ Ibid.

⁷ From the SBA: <http://www.sba.gov/advo/stats/profiles/02nm.pdf>

⁸ SBA’s NM Guide: <http://www.reni.net/guides/pdf/english/newmexico.pdf>

⁹ http://www.sba.gov/nm/NM_ABOUTUS.html

as a co-sponsor of the annual Minority/Small Businesses “Meet the Buyers” Workshop. This event’s purpose is to promote economic development and bring Minority/Small Business owners together to discuss how to secure procurement contracts with local and state governments.¹⁰

New Mexico Small Business Development Center at Santa Fe Community College (“NMSBD”): The NMSBD is a public-private/state-federal partnership offering services to small business owners at 19 locations throughout New Mexico. It provides free advice on a broad range of issues and low-cost training. According to the group’s website, “it understands the additional challenges [minorities] face” and “provides training tailored to the specific needs of these entrepreneurs.”¹¹

ALTERNATIVES

The Economic Development Department recommends an amendment to add an appropriation of \$500,000 to administer the provisions of this act.

This program might be better administered by the Economic Development Department with impute from DOL, Chambers of Commence and others.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Minority business development in New Mexico may continue to lag behind that of the economy at-large, thereby undermining a huge potential area for growth.

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¹⁰http://ww1.edd.state.nm.us/index.php?/news/entry/state_hosts_workshop_for_small_and_minority_owned_businesses/

¹¹ http://www.nmsbdc.org/sbdc_services.html#woman