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FISCAL IMPACT REPORT

SPONSOR Leavell ORIGINAL DATE 1/23/08
LAST UPDATED _____ HB _____
SHORT TITLE Business Incubator Programs SB 86
ANALYST Earnest

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	FY09		
	\$1,000.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act for the Economic Development Department operating budget.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

Senate Bill 86 appropriates \$1 million from the general fund to the Economic Development Department to support business incubators in three stages:

1. \$50 thousand for communities to research and plan for new business incubators
2. \$350 thousand for communities to implement business incubator plans, and
3. \$600 thousand for operating expenses of existing business incubators.

FISCAL IMPLICATIONS

The appropriation of \$1 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2009 shall revert to the general fund.

SIGNIFICANT ISSUES

Laws 2005, Chapter 67 (HB 54), set conditions for state expenditures for business incubators. To receive state funds business incubators must pass a certification program administered by

the Economic Development Department (EDD). Incubator applications are evaluated by a nine-member advisory committee set up by EDD. The criteria are:

- A mission statement defining the incubators role in business growth
- A feasibility study for proposed incubators or a business plan for existing incubators
- An effective governing or oversight advisory board
- Qualified management and staff
- Ongoing business assistance program
- Appropriate facility
- A screening and selection process for prospective businesses and a graduation policy
- System for program evaluation
- Membership in the National Business Incubation Association (NBIA)

To circumvent this certification process, some business centers avoid using the term “incubators”.

According to EDD, the three phases of funding in this bill track the three step process put in place by the Incubator Program:

1. The first step for a community considering a business incubator is research. Business incubator feasibility studies identify potential clients for a new incubator, or lack thereof; assess the availability of resources for the clients; identify obstacles to the incubator’s success; and provide an implementation plan for the incubator development.
2. Once the research is completed a community must address the obstacles to building a sustainable incubator and organize its resources to build or renovate a facility and provide the necessary services to incubate its clients.
3. Finally, successful business incubators need subsidies to maintain their momentum and accomplish their mission. Without these subsidies the incubator would need to charge market rates for the facility and client programs, negating the concept and purpose of the incubator.

According to EDD: business incubators report to NBIA that 87 percent of their clients remain in business after graduating – a much higher success rate than business start-ups who “go it alone.” And, 84 percent of their clients remain in the community after graduation. Finally, NBIA research has shown that for every \$1 of estimated public operating subsidy provided the incubator, clients and graduates of NBIA member incubators generate approximately \$30 in local tax revenue alone.

PERFORMANCE IMPLICATIONS

EDD reports that New Mexico’s certified business incubators have assisted more than 100 companies in the creation of over 700 jobs, with a revenue and capital generation approaching \$100 million. 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 funds and other state incentive programs.

ADMINISTRATIVE IMPLICATIONS

None identified.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The bill relates to an appropriation in the General Appropriation Act for the Economic Development Department's operating budget. The GAA includes \$110 thousand, in recurring funds, for the business incubator program, although the amount is not earmarked.

OTHER SUBSTANTIVE ISSUES

In addition to incubators, small business development centers (SBDC), funded through universities, also 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, and the General Appropriation Act (House Bill 2) includes \$4.7 million for SBDCs statewide.

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