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FISCAL IMPACT REPORT

ORIGINAL DATE 1/21/2013

SPONSOR Lopez/Salazar LAST UPDATED _____ HB _____

SHORT TITLE Statewide Certified Business Incubators SB 42

ANALYST Clark

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
	\$200.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

Higher Education Department (HED)

SUMMARY

Synopsis of Bill

Senate Bill 42 appropriates \$200,000 from the general fund to the Economic Development Department (EDD) to support certified business incubators statewide.

FISCAL IMPLICATIONS

The appropriation of \$200,000 contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2014 shall revert to the general fund.

SIGNIFICANT ISSUES

Business incubators support entrepreneurs and early stage companies with free or below-market services, training, and mentoring. Public funding is essential to the survival of any incubator. National Business Incubation Association statistics indicate that an incubator must receive between 25 and 50 percent of its income from sources other than its tenant businesses in order to be effective and sustainable.

Few federal programs today 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. Rural communities certainly have the most difficulty in providing these funds. There are no alternative funding sources for this program.

The Legislature established the certified business incubator program in 2005, and the program received funding in fiscal years 2006 through 2010. Funding was reduced significantly in FY10 and was discontinued in subsequent fiscal years. The state provided a total of \$548,600 in funding to the five certified business incubators.

The EDD reports that a 2011 economic impact study indicated a cost benefit ratio for the funding of 57 to 1, or \$57.49 for each \$1.00 of state funding. The study estimated that during fiscal years 2007 through 2010, total tax revenue returned to the state and local taxing districts by incubated businesses was approximately \$52 million. Tax revenues generated by incubator tenants and graduates in 2011 alone totaled nearly \$13 million.

Additionally, EDD analysis shows that business incubation has been recognized globally as an essential component for economic growth. Approximately 80 percent of the businesses that graduate from an incubator remain within 50 miles of the facility after graduation. Nationally, small businesses generated 65 percent of all new jobs created for the last 17 years.

PERFORMANCE IMPLICATIONS

Business incubators contribute to the EDD’s mission of job and wealth creation. In addition, business incubators contribute to several of the 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 the EDD or its operating budget as a staff person already works with the program. The EDD is simply a pass-through for the funding to flow to the business incubators that provide the facilities and services.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The bill relates to small business development centers (SBDCs), 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 SBDCs located in 20 communities 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 other business start-ups, only 44 percent of which survive at least four years. 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 businesses,” making entrepreneurship and small business support critical to the state’s economic well-being.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Without additional state funding to replace declining federal funding for business incubators, the ability of New Mexico’s incubators to assist local companies will be impaired, and related job creation could wane. The EDD reports that without additional financial support some business incubators might close.

JC/bm