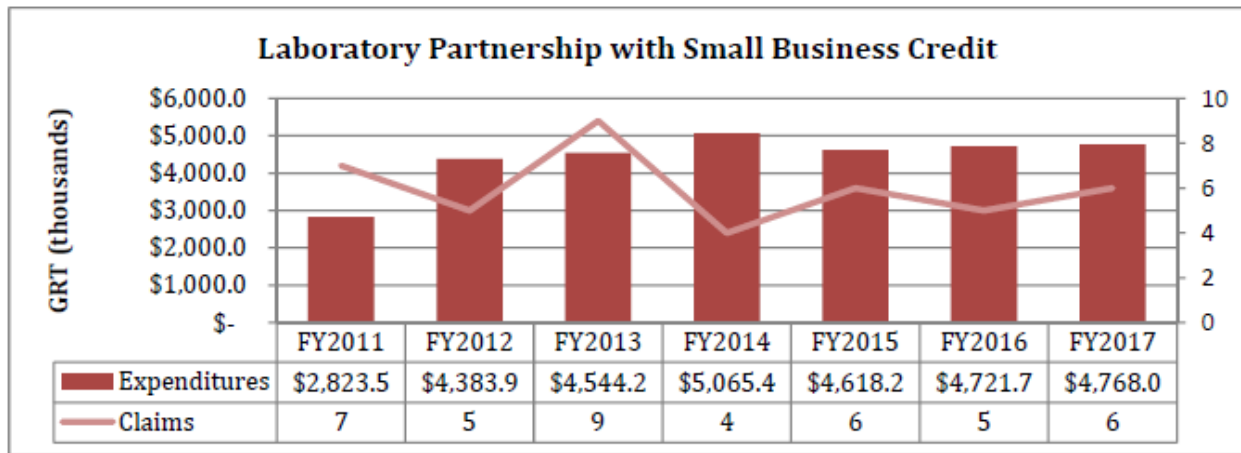


Finally, it requires the national laboratory to provide a written notice that informs each small business receiving assistance of their right to license intellectual property developed from the small business assistance or obtain ownership of the tangible or intangible property developed from the small business assistance.

The effective date of this bill is July 1, 2019.

FISCAL IMPLICATIONS

This bill has no fiscal impact. The table below from the Taxation and Revenue Department (TRD) *2017 Tax Expenditure Report* shows the cap on the credit (\$2.4 million per lab for a total of \$4.8 million) was essentially reached in each of the last several years. The impact of the changes in this bill could make the program and credit more useful to an individual small business, and the assistance can be of higher value, but because of the cap (which is not altered by the bill), this would also presumably result in fewer businesses assisted annually to stay at about the same level of cost.



SIGNIFICANT ISSUES

The existing \$10 thousand and \$20 thousand limits were put in place in 2007. Inflation, perhaps along with anecdotal reports of the need for greater assistance for individual projects, likely led to the proposal to double these limits.

TRD reports this credit has proven to induce and incentivize partnerships between the national labs and small businesses and start-ups. The national labs in New Mexico have incredible resources, and the ability and incentive to share these resources may benefit the New Mexico economy and attract high tech companies to the area.

The Economic Development Department (EDD) provided the following analysis.

The laboratory assumes automatic rights to the intellectual property if the small business does not negotiate or “obtain ownership” of the physical property/intellectual property generated from the assistance provided to the small business. This potentially allows the

laboratory or laboratory contractor to license the intellectual property of the business to the business for a royalty/fee. This bill is also unclear on how a small business would “obtain ownership” of their tangible or intangible property that developed as a result of their assistance. The language does not exclude the possibility of the laboratory charging the company a royalty/fee to obtain their tangible or intangible property (i.e. prototype, intellectual property, trademark, etc.) that resulted from the small business assistance. The laboratory is already receiving a tax credit for offering small business assistance.

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.

OTHER SUBSTANTIVE ISSUES

The *New Mexico Small Business Assistance 2017 Annual Report* from Sandia and Los Alamos National Laboratories provided the following overview and metrics tables, found at the following link:

https://www.sandia.gov/working_with_sandia/technology_partnerships/assets/documents/2017%20NMSBAPerspectives.pdf

In 2000, the New Mexico State Legislature created the Laboratory Partnership with Small Business Tax Credit Act for the purpose of "bringing the technology and expertise of the national laboratories to small businesses in New Mexico to promote economic development in the state, with an emphasis on rural areas." As a result, Sandia National Laboratories established the New Mexico Small Business Assistance (NMSBA) Program to provide technical support to small businesses throughout the state. Los Alamos National Laboratory began participating in NMSBA in 2007. Jointly, the labs are committed to solving small businesses' critical challenges with national laboratory expertise and resources; influencing New Mexico business development by building capacity, capabilities, and competencies; and acting as an advocate for small businesses through an entrepreneurial culture.

While each company utilizes NMSBA in a different way, all use it as a means to maintain or grow their businesses. NMSBA services are provided at no cost to the participating small businesses in the form of lab staff hours valued at up to \$20,000 per calendar year for businesses located in rural counties and \$10,000 for businesses located in urban counties (currently just Bernalillo County). The total amount of assistance is capped at \$2.4 million annually for each laboratory. NMSBA may not provide assistance that is available in the private sector, and no equipment or cash can be given to a participating company.

VALUE OF PROGRAM ASSISTANCE IN 2017

In 2017 the State of New Mexico, along with Los Alamos National Laboratory and Sandia National Laboratories, invested **\$4.6M** helping **346** small businesses in **28** counties to solve technical challenges. The following table contains the number of small businesses that received assistance from NMSBA, dollar value of the assistance for calendar year 2017, and cumulative value from 2000 to 2017.

| | Los Alamos* | Sandia | Total |
|--|---------------------|---------------------|---------------------|
| Number of Small Businesses Served | | | |
| 2017 | 161 | 188 | 346** |
| Rural | 117 | 101 | 216** |
| Urban | 44 | 87 | 130** |
| 2000 - 2017 | 886 | 2,192 | 2,797** |
| Rural | 639 | 1,328 | 1,779** |
| Urban | 247 | 864 | 1,018** |
| Value of Assistance Provided | | | |
| 2017 | \$2,201,499 | \$2,399,989 | \$4,601,488 |
| Rural | \$1,850,407 | \$1,693,353 | \$3,543,760 |
| Urban | \$351,092 | \$706,636 | \$1,057,728 |
| 2000 - 2017 | \$21,473,694 | \$36,437,783 | \$57,911,477 |
| Rural | \$18,826,544 | \$27,046,536 | \$45,873,080 |
| Urban | \$2,647,150 | \$9,391,247 | \$12,038,397 |

*Los Alamos began participating in NMSBA in 2007. **Some companies are served by both laboratories.

ACCOUNTABILITY & ECONOMIC IMPACT

NMSBA, enabled by the *Laboratory Partnership with Small Business Tax Credit Act*, is accountable to the State of New Mexico for its expenditures. NMSBA measures its economic impact through client surveys conducted by Research and Polling, Inc., and economic analysis provided by Robert Grassberger, PhD Economist.

| ECONOMIC IMPACT FOR BUSINESSES FROM NMSBA PROJECTS | 2000-2016* |
|--|---|
| Small Business Jobs Created and Retained | 6,858 |
| Average Reported Salary (2016) | \$43,560 |
| Increase in Revenue | \$325,996,166 |
| Decrease in Operating Costs | \$159,445,655 |
| Investment in NM Goods / Services | \$124,854,081 |
| New Funding / Financing Received | \$130,080,719 |
| Return on Investment** | For every \$1.00 of tax credit invested, the State receives a return of \$1.35. |
| Matching Investment | For every \$1.00 of tax credit invested, the labs provide a matching investment of \$.81. |

* Surveys are performed six months to one year after project completion.
 ** ROI is based on salaries of jobs created and retained.

BENEFITS TO NEW MEXICO SMALL BUSINESSES

New Mexico small businesses achieved positive results after receiving technical assistance from NMSBA. Feedback from companies that participated in the 2016 economic impact client survey revealed that:



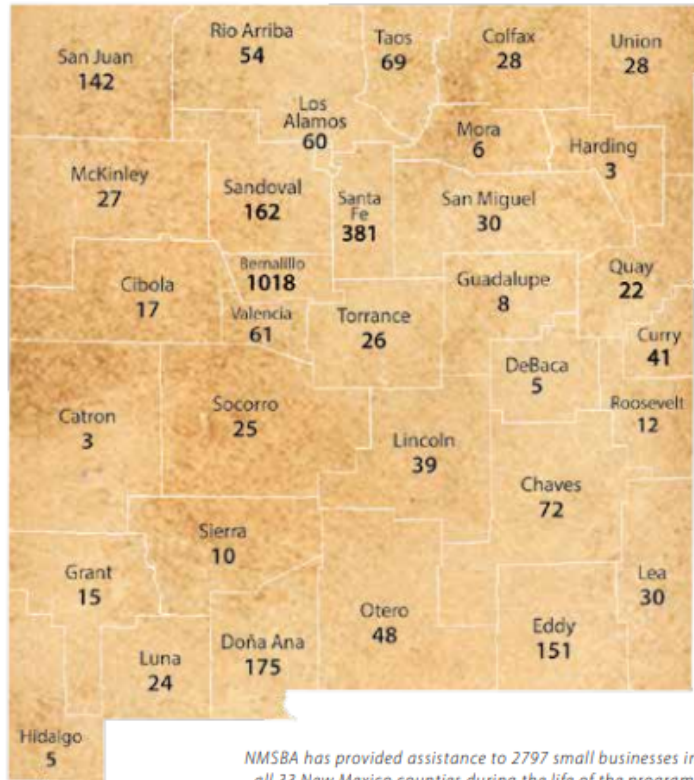
LABORATORY CAPABILITIES UTILIZED IN 2017

| | |
|---------------------------------------|-------|
| Engineering..... | 23.9% |
| Manufacturing..... | 23.1% |
| Advanced Modeling and Simulation..... | 9.8% |
| Materials Science..... | 8.1% |
| Biological and Medical..... | 6.9% |
| Energy..... | 6.9% |
| Earth and Environmental Sciences..... | 6.1% |
| Business Development..... | 4.9% |
| Chemistry..... | 4.6% |
| Micro-Nano Technology..... | 4.0% |
| Math and Computer Science..... | 1.4% |
| Astronomy and Physics..... | 0.3% |

INDUSTRIES OF SMALL BUSINESSES SERVED IN 2017

| | |
|---|-------|
| Manufacturing..... | 38.0% |
| Professional, Scientific, and Technical Services..... | 34.8% |
| Agriculture and Natural Resources..... | 11.3% |
| Retail and Wholesale Trade..... | 4.6% |
| Education Services and Health Care..... | 4.1% |
| Oil & Gas, Utilities and Mining..... | 2.9% |
| Other Services (except Public Administration)..... | 2.0% |
| Real Estate, Finance, Insurance, and Management Services..... | 1.4% |
| Media and Hospitality..... | 0.9% |

BUSINESSES ASSISTED BY COUNTY 2000-2017



Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate