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FISCAL IMPACT REPORT

SPONSOR	<u>Lane/Dixon/Serrato/Hernandez/Gallegos</u>	LAST UPDATED	<u>2/23/2023</u>
		ORIGINAL DATE	<u>1/29/2023</u>
SHORT TITLE	<u>Office of Entrepreneurship</u>	BILL NUMBER	<u>House Bill 118/aHAFC</u>
		ANALYST	<u>Dick-Peddie</u>

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EDD operations**		\$500.0	\$500.0	\$1,000.0	Recurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

**Recurring EDD operating costs are currently included in the HAFC Substitute for House Bill 2

Relates to

Appropriations in the General Appropriations Act

Sources of Information

LFC Files

Small Business Association

Federal Financial Institutions Examining Council

Responses Received From

Higher Education Department (HED)

Economic Development Department (EDD)

New Mexico Attorney General (NMAG)

SUMMARY

Synopsis of HAFC Amendment to House Bill 118

The House Appropriations and Finance Committee amendment struck the appropriation from the bill. The funding for the bill is contained in the HAFC substitute for House Bill 2, which includes \$200 thousand recurring and \$300 thousand in nonrecurring funding to support entrepreneurship.

Synopsis of Original Bill

House Bill 118 appropriates \$500 thousand from the general fund to the Economic Development

Department for the purpose of creating a permanent Office of Entrepreneurship. The office’s mission would be to grow entrepreneurship in the state through strengthening business policies, working with organizations supporting entrepreneurship, providing technical support for entrepreneurs, and providing access to public resources for entrepreneurship, including acting as a liaison between industry and state government.

The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

The House Appropriations and Finance Committee substitute for House Bill 2 includes a total of \$500 thousand to support House Bill 118, including \$200 thousand recurring funding in the EDD operating budget and \$300 thousand in special appropriations.

SIGNIFICANT ISSUES

According to the National Small Business Association (SBA), between March 2019 and March 2020, 5,882 New Mexico establishments opened and 5,277 closed, for a net increase of 605. Employment expanded at 11,446 and contracted at 11,606, and small businesses and entrepreneurs accounted for 5,853 openings and 5,256 closings. SBA reports in 2020 the largest small business industry in the state was professional, scientific, and technical services, and the smallest was management of companies and enterprises.

The Federal Financial Institutions Examining Council requires large banks to report new small business loans. In 2019, reporting banks issued \$387.7 million in loans to New Mexico businesses with revenues of \$1 million or less, down significantly from \$800 million 10 years ago, indicating a decline of entrepreneurs in the state.

Currently, the Economic Development Department offers a range of supports to entrepreneurs, including the Justice, Equity, Diversity and Inclusion office, which links diverse small businesses with capital and resources, the collateral assistance program which connects businesses to equity and capital, and the Office of Science and Technology, which provides small businesses and interested parties with resources and expertise on intelligent manufacturing, cybersecurity, bioscience, sustainable and green energy, and aerospace.

The agency also runs a certified business incubator program to assist startups in the state, and allocates funding to companies through the federal State Small Business Incentive Program, the Local Economic Development Act (LEDA) and the job training incentive program (JTIP). Additionally, the Legislature created two new programs for new and existing businesses during the 2022 regular legislative session, appropriating \$70 million for the Opportunity Enterprise Act fund to provide financing, leases, loans, and revolving funds to qualifying businesses and \$35 million for the venture capital fund to make investments in new, emerging, or expanding business in New Mexico that create new job opportunities. The Legislature appropriated a total of \$165.9 million in one-time appropriations to programs with the ability to assist entrepreneurs last year alone.

Purpose	Total Appropriation (in thousands) for FY23-FY24
Local Economic Development Act	\$50,000

Venture Capital Investment Fund	\$35,000
Federal Grants Administration	\$3,935
Opportunity Enterprise Act	\$70,000
Job Training Incentive Program	\$7,000
TOTAL	165,935

Other entities also provide resources for entrepreneurs, including the New Mexico Small Business Association (NMSBA) run by Los Alamos and Sandia National laboratories, which offers technical support, assistance from lab scientists, testing, and design consultation at no cost to the business. The Workforce Solutions Department also offers assistance to individuals looking to start businesses in the state, including hosting seminars and publishing fact sheets on various business licensing requirements.

In agency analysis, EDD notes that while it supports additional targeted help for entrepreneurs in the state, the agency would have to “closely align [with existing programs] to avoid duplication and increase cohesion, rather than fragment department efforts”. LFC is similarly concerned about creating more silos of resources for entrepreneurship, and would recommend the agency work closely with the Legislature to consolidate or align these programs.

ADMINISTRATIVE IMPLICATIONS

EDD notes that while it can manage the additional 1 to 2 FTE proposed in House Bill 118, its passage in combination with other proposed legislation (see Duplication and Relationship section) would overly strain EDD administration. The agency currently does not have the office space to support more than 2 additional FTE, and moving locations would incur increased lease costs in addition to moving costs. The agency also notes that it does not have the administrative staff, including human resource and all services division personnel to manage more than one new program in the agency.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 118 relates to House Bill 188, which creates a transition office in EDD to assist local economies and individuals transitioning away from natural resource industries. House Bill 188 also relates to House Bill 8, which creates a Creative Industries Division in the Economic Development Department.

House Bill 118 duplicates Senate Bill 188, which also creates an Office of Entrepreneurship within the Economic Development Department. However, Senate Bill 188 is more extensive, appropriating more funding for the proposed office and creating a capital infusion fund for entrepreneurs.