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FISCAL IMPACT REPORT

LAST UPDATED _____
ORIGINAL DATE 2/7/2023

SPONSOR Padilla

BILL

SHORT TITLE Office of Entrepreneurship & Innovation **NUMBER** Senate Bill 62

ANALYST Dick-Peddie

APPROPRIATION* (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY23	FY24		
	\$750.0	Recurring	General Fund
	\$2,000.0	See Fiscal Impact	General Fund

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent version of this legislation.

REVENUE* (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25		
	\$2,000.0	See Fiscal Impact	See Fiscal Impact	Entrepreneurship Capital Infusion Fund (NEW)

Parentheses () indicate revenue decreases.
 *Amounts reflect most recent version of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EDD Administrative Costs	0	\$400.0	\$400.0	\$800.0	Recurring	General Fund
One-time Moving Expenses	0	\$200.0	0	\$200.0	Nonrecurring	General Fund
Total		\$600.0	\$400.0	\$1,000.0		

Relates to House Bill 188, House Bill 118, House Bill 8

Sources of Information

LFC Files

SUMMARY

Synopsis of Senate Bill 62

Senate Bill 62 appropriates a total of \$2.75 million from the general fund to the Economic Development Department for the purpose of creating an Office of Entrepreneurship and Innovation and advisory committee. The appropriations include \$750 thousand for office operations and \$2 million for a capital infusion fund to support startup costs for entrepreneurs

The new office at the Economic Development Department (EDD) would have a director appointed by the governor and the ability to hire staff as needed. The legislation enumerated services the office will provide, including business assistance in navigating and obtaining state resources, technical assistance regarding starting and running a business, and data and analytics about economic trends and business opportunities. The office is also expected to act as an advocate and organize state resources by advocating for equitable access to resource, organizing meetings with other state entities, and, beginning in 2024, provide reports to the governor, the Legislative Finance Committee, the library of the Legislative Council Service, and economic development agencies in New Mexico. Finally, the office will create and administer the economic capital infusion fund (ECI).

The bill creates an Entrepreneurship and Innovation Advisory Committee, composed of the EDD secretary or designate, a state university president appointed by the governor, and a member of the public familiar with economic development and entrepreneurship, also appointed by the governor. The EIA Committee will meet at least quarterly to create rules establishing the application process and criteria for loans from the ECI fund, develop applications for loans from the ECI fund, and consider and approve or disapprove applications for loans from the ECI fund. Members of the EIA Committee will be uncompensated, except that members who are not public employees may receive per diem and mileage as provided in the Per Diem and Mileage Act.

SB62 appropriates \$2 million to the ECI fund. The ECI fund may be used to make loans up to \$500 thousand “to enable entrepreneurs to leverage funds from other sources” to start new business or other endeavors or to pay administrative and reimbursable costs of the office of entrepreneurship subject to the legislative appropriation process. Beginning December 1, 2023, the EDD secretary shall provide a report to the governor, the Legislative Finance Committee and the library of the Legislative Council Service regarding the ECI fund’s loans and expenditures.

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

FISCAL IMPLICATIONS

The appropriation of \$750 thousand contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY24 shall revert to the general fund.

The second appropriation of \$2 million is a nonrecurring expense to the general fund. This bill creates a new fund and provides for continuing appropriations. LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds because earmarking reduces the ability of the Legislature to establish spending priorities.

The Additional Operating Budget Impact table reflects a cost of \$500 thousand to the Economic Development Department for administrative costs, of which \$400 thousand is recurring. Currently, the agency is at capacity for office space and would need to expand either its Albuquerque or Santa Fe offices to support the new division. EDD also notes it does not have sufficient services division and human resources personnel to support an additional division (see “Administrative Impact”). The analysis assumes \$200 thousand in increased recurring lease costs, \$200 thousand for 2 administrative FTE, and \$100 thousand in nonrecurring funding for moving expenses and new furniture.

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 New Mexico Small Business Development Centers, located throughout the state to work with entrepreneurs and build businesses and receive approximately \$4 million in general fund revenue annually, and the New Mexico Small Business Association (NMSBA) run by the 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, 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.

The Economic Development Department states, while there is “empirically a need for additional funding for entrepreneurs in the state to compete with surrounding states, it must be acknowledged loans to entrepreneurs do carry a risk for taxpayer dollars.” The agency notes that studies indicate up to 90 percent of startup businesses will fail, with years two to five in the business cycle seeing 70 percent of these failures. Additionally, EDD notes that start-up business loans have a greater risk of defaulting. The \$500 thousand loan cap also concerns the agency. With the included appropriation of \$2 million, the fund could potentially run out of money after just four loans.

Finally, EDD noted the proposed advisory committee potentially does not have the expertise to manage the complexity of the proposed loan program. The State Investment Council noted similar concerns in agency analysis, stating:

The [advisory] committee may not be well suited to make loan determinations because: 1) the [advisory] committee is required to meet only quarterly, meaning loans may not be available to help entrepreneurs with urgent financial needs; 2) evaluating suitable loans for new endeavors involves review of business plans and financial projections by individuals with technical expertise and time that may be unreasonable to expect from uncompensated committee members meeting four times a year. From a resource perspective, employing professionals in the [Office of Entrepreneurship and Innovation] to make individual loan determinations may result in more consistent and suitable loan decisions. The [advisory committee] could then use its quarterly meeting to provide guidance and direction regarding larger trends and the effectiveness of the overall loan program.

ADMINISTRATIVE IMPLICATIONS

EDD notes the passage of Senate Bill 62, especially in combination with other proposed expansions of the department (see “Conflict, Duplication, Companionship, Relationship”) 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 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

Senate Bill 62 relates to House Bill 188, which creates a transition office in EDD to assist local economies and individuals transitioning away from natural resource industries. Senate Bill 62 also relates to House Bill 8, which creates a Creative Industries Division in the Economic Development Department.

Senate Bill 62 in large part duplicates House Bill 118, which also creates an Office of Entrepreneurship within the Economic Development Department. However, House Bill 118 is less extensive than Senate Bill 62, with an appropriation of \$500 thousand.

TECHNICAL ISSUES

The State Investment Council notes the intended beneficiaries of the loan program are not well-defined. Loans from the ECI fund are authorized solely “to enable entrepreneurs to leverage funds from other sources.” SIC notes this poses technical complications, for approving or disapproving applications:

It is not clear whether this is a specific technical requirement (e.g., a loan from the fund is conditioned upon proof that additional money from other sources will be received by borrower once the loan is made) or a general aspirational requirement (e.g., if the fund makes a loan, it is hoped that the borrower will develop a business to which, someday, other entities will lend money).

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