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FISCAL IMPACT REPORT

SPONSOR	House Commerce and Economic Development Committee	LAST UPDATED	3/05/2025
		ORIGINAL DATE	2/13/2025
			CS/House Bill
SHORT TITLE	Technology & Innovation Division	BILL NUMBER	20/HCEDC/ aHAFc/aHFI#1
		ANALYST	Rodriguez

REVENUE* (dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Transfer		(\$51.6)				Nonrecurring	Technology Enterprise Fund
Transfer		\$51.6				Nonrecurring	Technology and Innovation Fund

Parentheses () indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EDD	No fiscal impact	\$732.7	\$758.7	\$1,491.4	Recurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bills 49, 107, 119, 211, and 212.

Relates to an appropriation in the General Appropriation Act

Sources of Information

LFC Files

Agency Analysis Received From

University of New Mexico (UNM)
Central New Mexico Community College (CNM)
Economic Development Department (EDD)
Department of Information and Technology (DoIT)
New Mexico Attorney General (NMAG)
Higher Education Department (HED)

Agency Analysis was Solicited but Not Received From

New Mexico State University (NMSU)
Department of Finance and Administration (DFA)
Community Colleges Association
UNM Health Sciences Center
New Mexico Institute of Mining and Technology
San Juan College

SUMMARY

Synopsis of HFI#1 Amendment to House Bill 20

The House Floor amendment #1 to House Bill 20 (HB20) adds an additional public member appointed by the secretary for the advisory board. The added member must be a representative who owns a business in the private sector but does not represent either employers or employees based on past jobs, professions, or affiliations.

Synopsis of HAFC Amendment to House Bill 20

The House Appropriations and Finance Committee amendment to House Bill 20 strikes the \$100 million appropriation from the bill.

Synopsis of HCEDC Committee Substitute of House Bill 20

The House Commerce and Economic Development committee substitute of House Bill 20 appropriates \$110 million from the general fund, including \$100 million to the research, development and deployment fund and \$10 million to the Economic Development Department (EDD) to award prizes for the proposed technology innovation prize program.

HB20 amends the Economic Development Department Act (Sections 9-15-1 through 9-15-36 NMSA 1978) and creates the Technology and Innovation Division and the Technology and Innovation Network Advisory Board; creates the Research, Development and Deployment Fund Act; creates a research, development and deployment fund; creates the technology innovation prize program; creates the technology and innovation fund; and eliminates the Technology Enterprise Division.

HB20 defines target sectors as aerospace and space, biosciences, clean energy and water, advanced computing, which includes artificial intelligence, quantum computing and cybersecurity.

Detailed Synopsis

Technology and Innovation Division. HB20 creates the Technology and Innovation Division at EDD, which consists of the existing Office of Strategy, Science, and Technology (OSST). The bill outlines the responsibilities of the division, including engaging with technology and innovation network advisory board, representing New Mexico at conferences and trade shows, identifying federal grant opportunities, providing staffing for each target sector, developing a statewide technology and innovation strategic plan, supporting technology transfer and commercialization, and administering the Research, Development, and Deployment Fund Act.

Technology and Innovation Network Advisory Board. HB20 creates the Technology and Innovation Network Advisory Board, which consists of an executive committee and any subcommittees created by the executive committee. The bill outlines the duties of the advisory board, including working with the new division, ensuring engagement with the private sector, and assisting with the research, development, and deployment fund. HB20 requires the advisory board, subcommittees, and executive committees to meet at least once a quarter at the call of the chair or at the request of the members. A majority constitutes a quorum for adoption of any

action.

Research, Development and Deployment Fund Act. HB20 enacts the Research, Development and Deployment Fund Act. Section 8 outlines duties to the Technology and Innovation Division to administer the fund, the application process, and review timelines; Section 9 defines eligibility to apply, what projects are eligible, and match funding requirements; and Section 10 details how projects will be selected for funding, what projects get priority, and terms for awarded projects. See *Significant Issues* for more details on the act.

Research, Development and Deployment Fund. HB20 creates a research, development and deployment fund. The fund would be administered by EDD and for the purpose of catalyzing innovation, economic growth, and job creation by providing early-stage capital and financial support to emerging technologies, start-up businesses, and research initiatives that align with the state's economic development plan through project awards.

Technology Innovation Prize Program. HB20 creates the technology innovation prize program. The program provides funding up to \$5 million for companies that provide technological innovation in the target sectors. Eligible companies must be registered in New Mexico and have substantial presence or commit to establishing a presence for a minimum of three years.

Technology and Innovation Fund. HB20 creates the technology and innovation fund that replaces the technology enterprise fund. The fund is administered by EDD and subject to appropriation by the legislature for the duties of the division.

Transfers. HB20 transfers OSST and Office of Entrepreneurship and all related all functions, personnel, and appropriations to the proposed Technology and Innovation Division. HB20 also transfers funding in the technology enterprise fund to the technology and innovation fund.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

HB20 creates two nonreverting funds—the research, development and deployment fund and the technology enterprise fund. Expenses related to these funds are considered recurring expenses. Although HB20 does not specify future appropriations, establishing new grant programs could create an expectation the programs will continue in future fiscal years.

This bill provides for continuing appropriations to the Technology and Innovation Division and to carry out the provisions of the proposed Research, Development and Deployment Act, respectively. LFC has concerns with including continuing appropriation language in the statutory provisions for funds because it reduces the ability of the Legislature to establish spending priorities.

The LFC fiscal impact analysis accounts for the transfer of funds in the technology enterprise fund into the proposed technology and innovation fund. Based on the agency's most recent audit, the fund had a balance of \$51.4 thousand.

LFC estimates additional operating budget impact due to anticipated per diem costs for the

public members based on two quarterly meetings for the advisory board and executive committee or subcommittees and staffing and operational costs to the agency for additional duties pursuant to the proposed act. For EDD staffing, LFC analysis accounts for five additional staff to support the target industries, the proposed board and respective committees, and the mission of the proposed division. LFC also accounts for an increase in operational costs to support additional staff at the division.

SIGNIFICANT ISSUES

Application Process. Section 8 of the bill specifies that the division will administer a streamlined application process and review applications to ensure they aligned with the agency's priorities. Section 9 of the bill also details required application materials, including project budget, letters of support, agreements with public and private entities, project timeline and funding schedule, and valuation methodology for in-kind contributions. An open and detailed application process creates an even playing field where registered businesses and public entities can match a pitch for public support. The application also narrows the agency's discretion in supporting projects that align with the state's economic development priorities.

Monitoring Compliance. Section 8 also requires the division to track the progress of funding projects and ensure compliance with the match funding commitments, if applicable. The bill does not include specific language on required outcomes of projects, although it does specify that priority will be given to projects that create high-quality and high-wage jobs, have higher percentages of matching funds, have strong potential for commercialization, support growth of New Mexico-based companies, or benefit rural or tribal communities. To ensure funded projects are resulting in benefits to the state, the state should consider what data metrics it will collect from awarded companies and public entities, such as actual jobs created, employment retention rates, company growth as a result of match funding, and products commercialized.

Caps. There is no capped amount that each eligible entity can receive from the fund. The absence of a capped amount for the matching fund allows for a flexible, case-by-case approach. This flexibility ensures that each entity applying for the fund can receive needed financial support without being constrained by predetermined limits. However, a lack of cap on awards allows for varying funding requests and potential fiscal uncertainty. Without a capped amount, there may be difficulties in allocating resources efficiently and balancing competing needs within the state, especially if entities are seeking funding simultaneously.

Claw Backs. HB20 does provide claw back language for the Technology Innovation Prize Program and requires awardees to repay prize money if they fail to meet the requirements of the program. However, the bill does not contain a claw back provision, in the event funds are misspent, for the research, development, and deployment fund. The only provision of the bill that could address this is in Section 8, which requires the Technology and Innovation Division to establish procedures for addressing undelivered applicant funding commitments. Ideally, incentive programs would include guardrails to ensure that the money being administered to the eligible entity results in the intended benefits. This bill should consider similar guardrails to ensure appropriate use of match fund awarding. The bill is unclear as to what happens to unexpended balances eligible entities may have once their project(s) is complete.

Anti-Donation Clause. The New Mexico Attorney General (NMAG) raises concerns that HB20 may present possible violations of the Anti-Donation Clause, which prohibits the state from

using public funds to benefit a private organization if the state does not receive anything of value in return. The Anti-Donation Clause allows the state to provide land, buildings, or infrastructure for facilities to support new or expanding businesses that create new jobs if the assistance is granted through legislation that is approved by the Legislature. The clause also specifies that the granting legislation must include adequate safeguards to protect public money. NMAG raises concerns that the research, development, and deployment fund and technology innovation prize program may be in violation of the clause if they do not adequately create new jobs and if the bill does not provide adequate safeguards to protect public money.

Existing Incentives and Grants Programs. The most similar existing program in New Mexico to the proposed research, development, and deployment fund is the technology enhancement fund. The fund provides matching funds to state research universities to support innovative foundational and applied research and equipment that advance knowledge and create new products and production processes in the fields of agriculture, biotechnology, biomedicine, energy, materials science, microelectronics, water resources, aerospace, telecommunications, manufacturing science, and similar research areas.

The University of New Mexico (UNM) argues the proposed fund fills the gap between the technology enhancement fund and the New Mexico match fund. UNM explains that both programs support match funding for more common federal awards that require cost share levels; however, the new proposed division would allow highly competitive submissions for large, often statewide or regional funding opportunities, that require millions to tens of millions of dollars in commitments from the state to be successful. EDD also supports this argument.

EDD, primarily through the Office of Strategy, Science, and Technology, also administers a variety of grant programs to support technology transfer and commercialization, including the science and technology business startup grants, New Mexico Quantum Technologies Award Pilot Program, the New Mexico Advanced Energy Award Pilot Program, and the New Mexico Research University Pilot Program. These programs award non-dilutive funds to early-stage science and technology companies. EDD argues the proposed fund would provide additional funding to support its science and technology target sectors.

Advisory Board Membership and Meetings. The advisory board would consist of over 30 members. HB20 requires the advisory board, as well as subcommittees and executive committees, to meet at least once a quarter at the call of the chair or at the request of the members—meaning some members would meet twice a quarter. EDD raises concerns over the size of the board, noting it could be difficult to convene the board to make award decisions.

Award Terms. HB20 allows project funding to support multi-year projects if their timelines align with federal or private sector grants and allows pre-award spending to meet external grant deadlines but specifies applicants must use non-state funds for these expenses. As noted by UNM, this flexibility is beneficial for entities applying to federal programs. UNM notes that federal programs are often announced with a few months' notice and require rapid commitment of resources faster than the regular legislative process can manage. Federal programs often update guidance which requires flexibility and fast responses that could be supported by the research, development, and deployment fund.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB20 relates to an appropriation for EDD in the House version of the General Appropriation Act (GAA). As proposed, the GAA includes a special appropriation of \$50 million to establish a research, development, and deployment fund contingent on enactment of House Bill 20 or similar legislation. The GAA also includes an increase of \$1.3 million in personnel funding, including \$320 thousand for OSST and \$1 million that was assumed to be for this new division.

TECHNICAL ISSUES

As noted by NMAG, Section 7 and Section 2(B)(8) have contradictory language regarding who administers the research, development, and deployment fund. In Section 7, the fund is administered by EDD while in Section 2(B)(8) the fund is administered by the Technology and Innovation Division. HB20 should be amended to clarify who administers the fund.

OTHER SUBSTANTIVE ISSUES

Access to National Laboratories. Section 12(E)(1) provides that the “department shall establish or coordinate with existing programs to provide technology innovation prize money recipients with access to New Mexico's national laboratories for consultation.” NMAG raises concerns that the word “access” can be construed very broadly and may raise an issue with federal programs that are subject to security access limitations.

JR/hj/SL2/rl/hg/sgr/SL2