BUSINESS INCUBATION IN NEW MEXICO

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I. Purpose of this Report
The purpose of this report is to assess and describe business incubation in New Mexico as it currently exists and to consider the state's capacity to benefit from the creation of additional incubators. The report will describe the nature of business incubators generally; explain the difference between simply providing a space for new businesses and providing a business assistance program worthy of being called business incubation; and identify why business incubators succeed around the country and how they can contribute to the creation of new jobs and new business activity in New Mexico. The report will also describe existing incubators in New Mexico and will identify their needs and contributions to economic development. Finally, the report will make recommendations relative to business incubation in New Mexico.

This report is not intended to be an exhaustive study of business incubators, nor is it intended to suggest that all New Mexico communities would achieve great benefits simply by opening business incubators. Much of the actual success of a proposed incubator will depend not only on the unique economic and other characteristics of the community, but also on the willingness of the community to make the financial and other commitments necessary to both see the incubator through to completion and to actually implement an appropriate business incubation program. The community's commitment, in turn, will likely depend on whether there are champions in the community dedicated to the success of the incubator who will spearhead the effort.

II. Executive Summary
Like many states, New Mexico is searching for ways to create jobs and raise the overall standard of living of its citizens. For the most part, this effort has concentrated on providing a variety of financial inducements to companies willing to locate new business activities and create jobs in New Mexico. These incentives include industrial development training funds (“in-plant training”), property tax abatements through the industrial revenue bond process and state tax credits for purchases of manufacturing equipment. Overall these efforts have succeeded, yet historically they have been more beneficial to large urban areas than to rural areas. Recently, a number of call centers that previously had been located almost exclusively in the Albuquerque area have been established in several small communities in the state. In-plant training funds have been a key factor in securing these new jobs. Few observers, however, believe this trend will continue. Some argue for using incentives to attract jobs that pay higher wages than call centers. The search for successful strategies to improve the state's rural economic health continues.

Around the country, business incubators have been established in greatly increasing numbers. Results show that incubators can create jobs in both urban and rural settings at a modest cost. Many communities have used incubators to bolster technology-based economic development, while others have used incubators to create jobs by encouraging the creation of new businesses in rural areas or in low-income areas of larger cities. The success of business incubation as a strategy for enhancing economic development is reflected in the fact that the number of business incubation programs in operation has gone from 12 in 1980 to more than 800 today. Business incubators have assisted more than 20,000 companies to date. According to a 1997 study by the University of Michigan and others, business incubators create jobs at a very reasonable cost relative to other job-creation programs.

What is a business incubator, what makes it unique and how is it different from other business assistance services? There are three characteristics that distinguish a business incubator:

- First, a business incubator has a mission to provide business assistance to start-up and fledgling companies. A multi-tenant facility with little more than a reception service and a copy machine is not a business incubator.
• Second, a business incubator has an on-site staff whose job it is to coordinate and deliver business assistance to client companies. Some services are offered directly and others are arranged through resources located in the region.

• Third, a business incubator has a program designed to lead its companies to self-sufficiency. Companies stay in business incubators for an average of about two and a half years. After that, they usually move out into the community and other companies take their place in the incubator.

No two incubators accomplish these program goals in the same way. Incubators can serve rural, urban and suburban communities and can address the needs of technology, service, manufacturing and small family companies.

There are successful business incubators in New Mexico, both well-established and newly-created. In some New Mexico communities, there are also multi-tenant facilities for new businesses that are called incubators even though they have not been sufficiently funded to provide the level of business assistance needed to make these facilities true business incubators. Examples of these facilities are located in Albuquerque, Las Cruces, Espanola and Hobbs. Because this type of facility has not had the record of success that true business incubators typically experience, the value of true business incubation programs can easily be underestimated. It cannot be emphasized enough: successful business incubation requires far more than just a multi-tenant facility and a shared copy machine. See Appendix III for the National Business Incubation Association’s standards for determining whether an incubator can be listed as a business incubator in its directory.

This should not suggest that proper business incubation programs require a great deal of expense: the principal cost is the acquisition or development of the facility. In communities where physical facilities can be made available without the need for rent or mortgage payments, incubator programs do not require a large ongoing expense, although the actual amount depends on the size of the facility, number of tenants, type of companies incubated and so forth. Typically, business incubators offering first-rate incubation programs can cover a significant proportion of their program costs from rental income. Where a local Small Business Development Center (SBDC) can assist in providing business assistance, program costs are reduced. But the smaller the incubator, the lower the proportion of total costs that can be covered by rental income, because economies of scale are not being realized.

Facilities identified in this report as business incubators are those where a business assistance program appropriate for a business incubator is in existence or is being created. These distinctions between New Mexico’s incubator programs are fairly arbitrary, however, and there is not as much difference in their business assistance programs as might otherwise be implied.

On the basis of these distinctions, there are at best six true business incubators in New Mexico, each making meaningful contributions to job creation and business development in their communities. Each has significantly different characteristics, different levels of financial support and different levels of success. The incubators in Los Alamos and Taos have existed for more than 15 years. The Taos incubator’s main focus is on the creation and processing of food products, while the Los Alamos incubator program is primarily for technology companies. Quite new incubators in Santa Fe and Farmington with excellent facilities and strong community support are providing well-designed multipurpose programs that are showing early and impressive results. The Carlsbad and Silver City incubators have far smaller programs. Carlsbad’s program is both limited and quite new, while that of Silver City is suffering from downturns in the local economy resulting from mining layoffs.

Opportunities for technology-based economic development have been long recognized in both Albuquerque and Las Cruces due to their proximity to significant research and development resources. However, although physical spaces have been identified in both cities for start-up companies, neither enjoys a true business incubation program.
Given that New Mexico is mostly rural with a small number of large urban areas and vast differences among them, the extent to which a community could benefit from a business incubator would have to be determined through a proper feasibility study. However, an informal survey of the state’s SBDC directors whose communities now lack incubators showed that most believe their communities would experience substantial job creation benefits from the presence of a business incubation program. The directors most familiar with business incubators expressed the most enthusiasm. There was general agreement that jobs created through new business formation is perhaps the only consistently viable strategy for creating new jobs in New Mexico’s rural communities. Most of the directors also indicated that the availability of revolving loan programs and other forms of business credit are important factors in rural economic development and that demand for such credit currently exceeds availability.

New Mexico’s policymakers should consider encouraging the development of more business incubators in the state, perhaps through creation of a statewide business incubator organization. Such an organization could facilitate and coordinate business incubator development, provide state matching grants for feasibility studies and ongoing support, identify “best practices” in New Mexico incubator development and operation, and provide an information clearinghouse. There are a number of federal programs that provide grants to create facilities for business incubators; these could provide some program support. Funds for incubators that address unique challenges are also available from some private foundations.

Farmington’s successful alliance with its community college could perhaps serve as a model for other New Mexico communities with community or branch colleges.

Efforts should also be made to enhance the availability around the state of revolving loan funds for new business start-ups, especially in rural areas. Sources for these funds can come not only from the state or local communities, but also from a number of federal government programs that provide assistance and funding.

Whether or not the state undertakes a program of business incubator assistance to New Mexico communities, successful deployment of business incubators requires individual communities to make significant commitments to the effort and to identify local champions who can shepherd the project through to completion. Lacking these essential ingredients, there is little likelihood a community can enjoy the benefits a business incubator can provide.

III. Introduction

New Mexico and its communities fund or support many economic development programs. Given their immediate job-creation impact, it is perhaps inevitable that most of the attention is focused on attracting new business enterprises to the state. However, industry recruitment is a strategy that typically benefits only certain parts of New Mexico. The larger cities in the state along the Rio Grande are far more likely than other New Mexico cities to attract business activities from out-of-state. Even within those communities, certain segments do not benefit from the creation of these new direct jobs or the jobs created indirectly for a variety of reasons. In contrast, business incubation can create new jobs by increasing the successful formation of new business enterprises in any New Mexico city and in all neighborhoods of those cities.

There are a number of state and the federal government programs supporting the creation and viability of new businesses in New Mexico. These programs are important. They include Albuquerque’s Technology Ventures Corporation, which assists technology companies; job training programs of various types; revolving loan programs using funds from Community Development Block Grants and various federal government programs; the business assistance services provided by the state’s 18 Small Business Development Centers (SBDCs); Small Business Administration (SBA) loans; and the SBA’s SCORE program, which provides mentoring to small businesses by retired business people. There are also micro and small business lending programs that make loans to the smallest
businesses, such as New Mexico Community Development Loan Fund, ACCION New Mexico and WESSTCORP. These loan programs also provide varying degrees of business assistance to their borrowers. Lastly, in a small but growing number of communities, some business incubators already exist.

What distinguishes business incubators is that they are able to provide a unique environment for starting a business that greatly enhances its chances for success, as described in Part IV below. Advantages to the start-up company include the lower expense of a shared business facility, on-site availability of advice, support and business assistance, and programs designed to lead tenant companies to self-sufficiency. Given the SBDCs’ capabilities, it often makes sense to locate SBDCs in or near business incubators to facilitate access to their services. The services of the SBDCs are beneficial to the existing incubators; each serve as mutual sources of referrals. But the SBDCs often have broader interests than start-up companies and are independently directed under a federal/state program. They are therefore are not a complete substitute for incubator-directed business assistance services.

The following examples illustrate how business incubators can assist different types of communities to create jobs through increased business formation:

- Since the formation of the Boulder Technology Incubator in Boulder, Colorado in 1989, more than 50 companies have graduated, creating over 1000 jobs and generating investment of $500 million.

- Since its formation in 1996 by the town of Early, Texas, 150 miles southwest of Dallas with a population of 19,000, the Early business incubator has provided space for 14 companies, pumped some $4.5 million dollars into the community and created 44 new jobs, with 150 more jobs expected upon the opening of a new ceramic tile factory and the expansion of a concrete plant.

New Mexico has six business incubators in operation at present, two with a 15-year history and two relatively new incubators with impressive facilities and programs. Despite the tremendous opportunities for technology-based economic development, no incubators are located in Albuquerque, the state’s largest city, or Las Cruces, the second-largest city and home of New Mexico State University. There are a number of facilities in New Mexico that have been designated business incubators but in fact provide relatively little business assistance, including facilities in Albuquerque, Las Cruces, Espanola and Hobbs. These facilities are not experiencing the success expected of true business incubators and are not instructive in gauging the prospects for success of business incubators.

IV. Business Incubators Generally

How Widespread is the Business Incubation Effort? Although the very first business incubator in the United States was started in 1959 in Batavia, New York, business incubators have developed a strong record of creating jobs, encouraging technology transfer and facilitating the formation of new businesses in many different types of communities. While there were only 12 business incubation programs in operation in 1980, there are now more than 800 in North America. Data from the National Business Incubation Association (NBIA) indicates that incubators have assisted over 20,000 companies that, in turn, have provided employment for more than a quarter-million people. Incubators are spreading outside the United States as well. Nearly 20 percent of NBIA’s members are from outside the United States. In Korea, more than 200 incubator operations are now in operation. Given that so many new small businesses fail, it should perhaps not be surprising that assistance to small businesses is popular. Despite these failure rates, there seems to be an inexhaustible supply of people wanting to start their own businesses. NBIA estimates that at any given time, some seven million adults are starting up new businesses in the United States.

Are Business Incubators Successful? In 1997, a study was conducted by the University of Michigan, NBIA, Ohio
University and the Southern Technology Council that examined the impacts of business incubators that house very early-stage companies and provide a full array of management assistance. The study indicated:

- Incubated companies typically stay in an incubator for a period of two to three years then graduate to become free standing.
- Incubated companies experience very healthy growth.
- Incubated companies produce graduates with high survival rates. A reported 87 percent of the incubated companies that fulfilled graduation requirements are still in business.
- Business incubation programs create new jobs for a relatively little public funds. The study estimated the cost at $1,109 per job, comparing very favorably to the job creation cost of other programs.
- 84 percent of incubated companies remain in their communities.
- Despite their early stage, most incubated firms provide employee benefits.

Why Do Business Incubators Succeed? In the incubator industry, a common belief is that the key to success of business incubators is that the companies and those providing assistance are located in the same place. It is also helpful that start-up entrepreneurs are in the company of other start-up entrepreneurs, allowing them a shared sense of adventure and hardship, as well as shared business and technical skills. The ability to require incubated tenants to make progress towards graduation also provides incubator managers with a degree of leverage in encouraging clients to take the proper steps in establishing their businesses. Finally, business incubators’ assistance programs address the most common causes for small business failure:

- Entrepreneurs overestimate their personal strengths and underestimate their weaknesses.
- They lack adequate knowledge of the market they intend to address.
- They do not understand the level of capital that will be required.
- They often underestimate the importance of sales.

What Is the Difference Between Technology Incubators and Other Types of Incubators? Many incubators define themselves broadly as serving one of two types of businesses:

- The first type are businesses created by ambitious individuals with limited technical or business skills but the drive and dedication to start and run their own businesses. Often an entrepreneur starts a business because he or she cannot find a job working for others that is worthy of his or her talents or perhaps is not sufficiently rewarding and/or remunerative—hardly a phenomenon in New Mexico.

- The second type are technology-based businesses that depend upon utilizing a proprietary technology to competitively provide goods or services. They typically expect rapid growth, sometimes at a level that will attract professional venture capital firms to invest in the company. The founders are typically scientists and engineers. The initial jobs created by the company usually require a high degree of technical or business skills.

Some business incubators are devoted exclusively to one or the other of these two types of businesses, while others have a mixture. In this report, incubators focused on the first type described above are referred to as economic development incubators while those focusing on the second type are referred to as technology incubators. Incubators that address the needs of both are referred to as multi-use incubators.

What Does the Typical Business Incubator Look Like? Typically, incubators provide space for a number of businesses in a single location. While a small number of incubators are “virtual” incubators that do not house companies, they are not generally believed capable of providing as high a level of service as more typical incubators.
because contact with their tenants is not as intense or timely.

In the typical incubator facility, there is flexible space for tenant occupancy, allowing for the easy expansion of its clients’ businesses, or the reconfiguration of the space for new and smaller tenants when an incubator tenant “graduates” and moves out to its own business location. Office services, including reception, telephone service, fax machines, and copying capabilities are available on a shared basis, which reduces their cost. Typically there is also orchestrated exposure to a network of outside business, legal, accounting, marketing and technical consultants whose services are provided free or at a reduced cost. The most essential and important resource, however, is the incubator manager who acts as a clearinghouse, advisor, confessor, mentor, confidante and coach to the incubator clients.

Who Typically Sponsors Business Incubators? Historically, the types of organizations that initiate incubator development have been primarily local economic development organizations. Universities sometimes create incubators and integrate their activities with the university's technology transfer, applied research or entrepreneurial studies programs. Community development corporations, a type of organization defined by various federal assistance programs that are devoted to improving the levels of job availability, housing, healthcare and social services in a community, are also frequent creators of incubators.

While traditional incubators have been not-for-profit enterprises, there have recently been a number of for-profit technology incubators created, some self-described as “accelerators” or “innovation centers”. These incubators are typically formed by large corporations, venture capital firms or private investors with substantial resources. The fortunes of some of these incubators rose quickly in 1998-2000 and fell more quickly during the latter part of 2000 and early 2001. While for-profit incubators had been around for a few years before their recent surge in popularity, it is an open question whether they will become a significant force in business incubation in the future.

How can the Feasibility of a Business Incubator Be Determined? Any New Mexico community considering an incubator should recognize that a feasibility study is an important first step in determining whether a business incubator should be undertaken. With a twenty-year history of operations and substantial growth in the number, type and location of incubators, a number of factors indicating that an incubator is feasible have been identified by incubator developers. These include the following:

- The sponsors must be able to identify their goals for the incubator as well as the measures by which its performance will be judged.
- The sponsors must understand the level of resource commitments required.
- An individual or group of individuals must be identified to pull things together in the initial stages of the project.
- Thoughtful analyses of the cash flow and levels of financing required must be made.
- A building that lends itself to the needs of early-stage companies must be identified or envisioned.
- The project manager must be able to work well with other economic development organizations.
- Advisors experienced in business incubator development must be brought in to assist in developing the business plan.
- A market assessment of the number of potential tenants of the incubator must be made.
- The incubator must find a way to provide the mentoring and technical assistance appropriate for incubator tenants.

Conclusion. The main goal of the incubator, no matter what its type, is to produce successful graduate businesses. Research from the NBIA shows that incubator graduates have much higher success rates than other start-up companies. Most importantly for New Mexico, incubators can serve New Mexico’s diverse needs. They can diversify
rural economies, provide employment in low-income neighborhoods of larger cities and they can facilitate technology-based economic development from universities, corporations and federal research facilities.

The business incubator undertaking requires a great deal from the community that desires the incubator. Thus, some New Mexico communities will self-select their ability to succeed with the creation of a business incubator.

(Sources: Interviews with incubator managers in New Mexico and in other states, presentations made at annual meetings of the National Business Incubator Association and various publications including Rice and Matthews, Growing New Ventures, Creating New Jobs, Quorum Books (1995), Meeder, Forging the Incubator, NBIA Publications (1993), Wolfe, Adkins and Sherman, Best Practices in Action: Guidelines for Implementing First-Class Business Incubation Programs, NBIA Publications (2001), Incubating in Rural Areas, Challenges and Keys to Success, NBIA Publications (2001) and speech by Dinah Atkins, Executive Director, NBIA, Charlotte, N.C., March 30, 2000, and other materials made available by the NBIA. See www.nbia.org).)

V. Business Incubation in New Mexico

Compared to other states, business incubation is coming slowly to New Mexico and there is a wide variation in the incubators’ scope and impact. Los Alamos and Taos have had extensive incubator programs since the mid-1980s. Santa Fe and Farmington have recently undertaken new incubators that are clearly off to a good start. Carlsbad and Silver City have quite limited programs. Espanola and Hobbs provide facilities for start-up companies but have not yet created full-fledged business incubation programs.

Similarly, Albuquerque and Las Cruces have also identified locations for start-up technology-based companies but lack full incubation programs, notwithstanding the well-recognized opportunity to create technology-based economic development in both communities.

Los Alamos.

The first business incubator in New Mexico opened in Los Alamos in 1985 under the leadership of Jim Greenwood, the executive director of the Los Alamos Economic Development Corporation (LAEDC), who headed the incubator until 1996. Funding for the incubator came partly from a contract with Los Alamos County and a grant from the U.S. Department of Energy but largely from a loan made by Los Alamos National Bank. Known as the Los Alamos Small Business Center, since 1999 it has come under the management of the Los Alamos Commerce and Development Corporation (LACDC). The LACDC has become an umbrella organization for a number of organizations dedicated to business and economic development in Los Alamos County. The organization itself resulted from the merger of the Los Alamos Chamber of Commerce and the Los Alamos Economic Development Corporation. The various constituent organizations, in addition to the Small Business Center, are the Los Alamos Research Park, the UNM-Los Alamos SBDC, the Los Alamos Meeting and Visitor Bureau and Los Alamos MainStreet. The latter organization is dedicated to improvement of the downtown area.

The stated goals of the LACDC are to diversify the regional economy away from reliance on Los Alamos National Laboratory (LANL), to give the region greater flexibility to respond to shifts in LANL operations, to provide more employment options for local residents, and to develop opportunities for manufacturing and distribution businesses in the area. The listed goals of the Los Alamos Research Park, located on land leased from the U.S. Department of Energy (DOE), are to provide space for corporate research and development outposts and corporate headquarters and a location for local technology companies where they can realize value from the proximity of LANL. Development capital for the park is provided by grants from the Regional Development Corporation, the DOE Community Reuse Organization for this region of New Mexico, as well as the U.S. Department of Commerce's Economic Development Administration. Los Alamos County is assisting with operating funds during development base.
The Small Business Center operates out of two buildings: the original location of the business incubator in downtown Los Alamos and an annex at the Eastgate Industrial Park at the edge of the city on the road to Santa Fe that opened in 1986. The center offers space at both locations not only to incubated companies but also to other companies needing a business office. Vacancy is only five percent, indicating demand is certainly adequate, but it must be remembered that available business and residential space has always been in short supply. The Small Business Center also rents offices and conference rooms by the day. The scarcity of business space in Los Alamos illustrates the importance of the future role of the Los Alamos Research Park in providing new space for tenants who can contribute to economic development in the community.

The Small Business Center has 28 incubator tenants and 12 other tenants. Among the incubator tenants, most are technology-based companies, reflecting the advantages of location near Los Alamos National Laboratory. The SBDC, whose offices are located at the downtown Small Business Center facility, provides many of the business assistance services required by incubated tenants, although some are also provided by other constituents of the LACDC. The Small Business Center staff, in addition to director Kevin Holsapple, includes two administrative employees and one staff person. The SBDC staff, consisting of five part-time counselors and a program coordinator, also provides mentoring and referrals to outside sources of assistance, including marketing, legal, accounting and technical assistance. The annual budget of the Small Business Center is approximately $600,000, all of which is met from the collection of rents as there are no operating subsidies.

The Small Business Center was unable to provide detailed information on its accomplishments to date, although the incubator is well-known to have launched a number of successful technology start-up companies over the years, such as Amtech, CASA, Optomec and Hytec. The total number of incubator graduates is at least 35.

Notes. The Los Alamos business incubator faces some unique challenges fostering start-up companies in a community so focused on the activities of a single entity—Los Alamos National Laboratory. Start-up company management must be imported or attracted from the Lab. It cannot be easy for inventors of promising technology to leave the security of the Lab for life in a start-up company. Yet over the years, this incubator has produced some impressive graduate companies, as noted above.

While the concentration of the various business promotion and economic development activities in Los Alamos under the LACDC umbrella likely facilitates coordination and achieves economies, it also appears to limit the amount of time and attention that can be specifically directed to the incubation activities of the Small Business Center. While the LACDC is governed by a board of directors, there is no separate advisory or other board specifically for incubation activities. With the Small Business Center located downtown in a leased facility and the Eastgate building mortgaged, the need to make rent and mortgage payments depletes resources that could be used to provide business assistance beyond the present level. Incubators are typically located in facilities that do not require either rent or mortgage payments. Hopefully in the future, it will be possible to relieve the Small Business Center of these costs. The Small Business Center should have the resources required to maximize the advantages presented by the presence of Los Alamos National Laboratory and its highly-skilled scientists and world-class research and development

Taos
In 1986, the Taos Business Council placed an ad for an economic development director. Patti Martinson and Terrie Bad Hand, then Denver residents, responded to the ad and took over the management of the Council which they renamed the Taos County Economic Development Corporation (TCEDC). Martinson and Bad Hand have been at the task ever since, starting with a business incubator in a renovated grocery store on the main thoroughfare in Taos. A multi-use incubator, it has since served as home to over 100 start-up businesses including
furniture makers, tinworkers, upholsterers, potters, artists, nonprofit organizations and a local transportation provider. The low-cost space has spawned award-winning furniture designers and other graduates who have left to open prime retail spaces in Taos. Currently, the incubator houses three artists, four nonprofit organizations, nine manufacturers and four technology/service businesses. Since the creation of the Taos Business Park several miles away, as described below, business assistance services are no longer available on-site and the focus of the TCEDC has primarily been on the activities conducted at the Taos Business Park.

The face of TCEDC changed dramatically in 1996 when, after two and a half years of planning and fundraising, it created the Taos Business Park. The Park includes a total of 24,000 square feet, of which 5000 square feet are devoted to the Taos Food Center and administrative offices of the TCEDC. The remaining space is used for commercial tenants as well as a child-care center. A generous local patron donated the six acres on which the park sits. Funding came from the U.S. Rural Development Administration, the Economic Development Administration and a Community Development Block Grant, all of which were needed to create the attractive development west of the main highway into Taos. Rental space for the ten small businesses in the Park has remained consistently occupied, with 80 percent of the tenants being local businesses. Among other typical tenant amenities, the park offers its tenants on-site child-care, start-up business assistance, marketing assistance, business assistance and financial assistance. Taos Business Park tenants created 53 new jobs in the most recent fiscal year.

The Taos Food Center resulted from the conclusion of Martinson and Bad Hand that what mattered most to local residents was the land, water and their community traditions and that an effective means of utilizing these values in business activity would be through the preparation and sale of food products. Accordingly, the Food Center was created to allow users to start their own specialty food businesses, supporting not only themselves but also local growers. Among the products produced and sold by users are chips, tortillas, breads, soups, salad dressings, spices, salsas, chiles, fruit products, jellies, cookies and more. Often, a longtime family recipe has become a source of income. Users of the facility, who rent the facilities on an hourly basis, 24 hours per day, seven days per week, have access to expensive deep fryers, commercial mixers, ranges, smokers and ovens, and walk-in refrigerators and freezers. They are also given technical instruction in food processing allowing them to safely manufacture, package and distribute their products. This includes shelf-life information, Health Department compliance and packaging and labeling. Training is also given in business and computer skills. A majority of the products are sold locally but some are sold in other areas of New Mexico and, to some extent, regionally. More than 30 businesses used the Food Center facilities in the most recent fiscal year.

The heart of entrepreneurial training at the Food Center in food preparation, processing and handling has become embodied in a ten-week, 130-hour training program conducted at the center. Inaugurated 18 months ago, some 50 individuals have gone through the program that has begun to attract not only food entrepreneurs but also individuals wishing to obtain employment in one of Taos’ many fine restaurants. Local restaurants have become strong supporters of the Food Center because of the quality of the training.

But the basic purpose of the training program is to teach local entrepreneurs how to create their own food businesses. Most of the trainees initially work only at the center but gradually establish their own food processing businesses elsewhere in the park or from other business locations. The Food Center has recently developed a branding program for food products created at the center, giving the products the label “Oso Good Foods”. Overall, the program has created 18 new businesses and created 28 new jobs.

As an adjunct to the Food Center, the TCEDC also operates the Taos Community Garden. The garden began as a demonstration project to show the potential of farm-to-market enterprises but has evolved into source of subsistence for participants as well as a source of food for their food businesses. After participants receive a distribution from the harvest for their personal needs, the balance of the produce is sold at a local farmer’s market,
to Food Center processors and to local restaurants. TCEDC hopes to develop a greenhouse in the future and provide further education on sustainable farming models in the Taos area.

Because the TCEDC is also a community development corporation, it conducts a number of programs other than entrepreneurial training at the Park.

Although the TCEDC received financial assistance from the City of Taos to develop its plan back in 1986, it currently receives no local or state financial assistance. Instead, its operations are supported primarily from grants from a number of local and national foundations as well as the Office of Community Services of the U.S. Department of Health and Human Services. It also receives assistance from the New Mexico Manufacturing Extension Program, which is operated by the National Institute of Standards and Technology program at the U.S. Department of Commerce. The current operating budget of the TCEDC is approximately $400,000, including both the Taos Business Park and the separate business incubator facility.

A staff of seven FTEs carries out the activities of the TCEDC. These include a kitchen manager for the Food Center, a small business development specialist, an office manager, a construction and maintenance supervisor and a project engineer whose focus is small manufacturing and food production and processing in particular.

Notes. By building a program centered on land, water and the culture of their constituents, Patti Martinson and Terrie Bad Hand have created a unique asset for Taos economic development. The success of their endeavors is likely due to their personal commitments to their efforts, plus their personal capabilities in management and fundraising. Their success with the shared kitchen concept is well known to those in business incubation efforts across the country. With a limited budget, however, the ever-expanding programs of the Food Center will likely make it difficult for the TCEDC to concentrate on general business incubator activity. With their skills, though, the founders will likely find a way.

Santa Fe
The Santa Fe Business Incubator (SFBI) opened Phase I of a 10,000 square foot facility in late December 1997. The facility was quickly leased up and planning for Phase II began soon after. Construction was subsequently undertaken and occupancy of the 20,000 square foot new Phase II structure will begin in late 2001 or early 2002.

The incubator was created because of strong support from the Santa Fe City Council, including Debbie Jaramillo, who later became Mayor, as well as from the Santa Fe Chamber. The stated mission of the incubator is to diversify the local economy, create jobs, generate taxes and build economic wealth in the community.

Current clients total sixteen, of which four are technology-based. As in Los Alamos and Albuquerque, there is a strong likelihood for technology companies to be found in the Santa Fe incubator. This results from Santa Fe’s proximity to Los Alamos National Laboratory and the popularity of Santa Fe as the location of bioinformatics companies. Having a mix of potentially successful technology start-ups and much smaller and more slowly growing non-technology businesses represents a particular challenge to incubator managers. Technology-based companies require access to specialized advisors and mentors. Because Santa Fe attracts a large number of highly talented semi-retired business people, Marie Longserre, the president and CEO of the SFBI, has been successful in providing high-quality mentoring to the technology companies in the incubator and they are progressing well. Interestingly, of the incubator’s clients, only eight are focused on serving New Mexico markets while six are looking at least in part to national markets.

Other current clients include three manufacturing companies, six service companies and four nonprofit
organizations focused on economic development and workforce development, three of which serve clients.

The incubator’s first phase facility is 95 percent occupied as it has been almost since inception. The 22 clients employ more than 100 full-time persons with revenues exceeding $3 million annually. SFBI’s two affiliate companies that do not occupy space in the incubator have revenues of $2 to 3 million. Six companies have graduated from the incubator to date and all remain in business at the present time. In the previous calendar year, seven SFBI clients grew 25 to 50 percent in revenues while the revenues of four clients grew more than 50 percent. The average length of participation is listed at 36 months, although it must be remembered that the incubator has a limited operating history so this statistic will become more meaningful over time.

Lack of financing is listed as a common obstacle to the success of the incubator. The incubator has working relationships with micro and small business lenders WESSTCORP, ACCION New Mexico and New Mexico Community Development Loan Fund, all of which are of assistance to the non-technology-based start-ups. Technology-based companies seem to be succeeding in finding investors as needed. One tenant recently raised approximately $1 million from private investors.

Other common obstacles for SFBI clients include inadequate financial planning skills, unfamiliarity with government rules and regulations and inexperience in personnel management.

As indicated above, the SFBI has a volunteer mentoring program for clients that is said to be working well, with more than 22 mentors currently serving clients.

Funding for infrastructure has come from the U.S. Department of Commerce’s Economic Development Administration, the Regional Development Corporation, the City of Santa Fe, state legislative appropriations, Qwest and several local and national foundations. Operations have been funded from donations and rents plus contracts with the city and county. Long term funding through these governmental sources must be renewed annually. At the present time, Santa Fe County has indicated that its budgetary problems will preclude renewing funding for the next fiscal year.

Once Phase II is completed and occupied, incubator clients are projected to create a total of 170 full-time jobs and generate over $15 million in revenues annually.

SFBI has a total budget of $300,000, although when Phase II of the facility is brought on line, operating expenses will increase substantially at least until rent-up of the new structure. This will be particularly difficult for the incubator as some of its current contract and grant income appears uncertain at this time. The existing facility is fully paid for and it is hoped that the remaining funds necessary to pay in full the cost of the second phase of buildings can be obtained as well.

The staff of the incubator consists of the president and CEO, Marie Longserre, and two administrative personnel.

Notes. In Santa Fe, strong leadership from the City Council and Mayor and also from the Santa Fe Chamber of Commerce has made this incubator possible. Of no small help were state funds secured by Santa Fe’s legislative representatives. These enlightened efforts have resulted in the creation of an incubator with an impressive record to date and it bears remembering that, as a general rule, a business incubator’s true potential is seldom reached in the first five years of operation. However, ongoing reliable financial support for the incubator is a major challenge that must be met, especially for the new incubator space coming on line soon. The credit for SFBI’s operational success is widely given to the president, who has created a highly competent operation in a relatively short period of time. She in turn credits members of the SFBI Board of Directors.
Farmington

After a ten-year planning effort, Farmington put together an interesting collaboration with the local San Juan College by constructing an integrated business support facility in which are located the San Juan College Business and Industry Training Center (workforce training and business and technical training), a new business incubator known as the Enterprise Center at San Juan College, and a regional economic development organization called the San Juan Economic Development Service. An SBDC is also located there. The long-planned effort came to fruition in 1999. To enhance their ability to collaborate, the four principal tenants have organized themselves as the Quality Center for Business. The center is managed by the four directors plus the San Juan College Assistant Vice President for Instruction. They have created an impressive $4.1 million facility for these activities.

The business incubator, known as the Enterprise Center, is a multi-use incubator offering 21,800 square feet of rental space for growing local businesses. This includes:

- Offices ranging from 125-555 square feet in size and
- Industrial space with overhead doors and high ceilings, ranging from 1100-4400 square feet in size.

Tenants share utilities in the office spaces, conference rooms, multimedia equipment, kitchen and break area, basic phone service and shared high-speed internet access as well as mail service, photocopying and other basic office support services, including a receptionist.

Former Farmington Mayor Tom Taylor was the moving force behind the creation of the incubator, beginning with the award of a $1 million business incubator grant from the U.S. Commerce Department's Economic Development Administration in 1996. City funds in the amount of $500,000 were also made available for the project. Subsequently, the city sought agreement with San Juan College, a local community college, to co-locate its Workforce Training Center with the incubator. As a result of these negotiations, a decision was made to locate the business incubator at San Juan College and build a facility that could also house local economic development entities as well as provide business and technical assistance to incubator tenants and local businesses. It is notable that the Farmington community itself came up with $1 million to make this facility possible.

Since the opening of the Quality Center for Business in 1999, the economic development and workforce training center programs at the center have grown and expanded. The San Juan College Training Center has 250 client companies and organizations, the San Juan Economic Development Service has expanded its staff support and economic development programming, the SJC Small Business Development Center has expanded its SBDC workshop offerings and business support services, and the Enterprise Center has 12 companies actively involved in the business incubation process. These companies have a total of 25 employees, seven of whom have been added since the companies came to the incubator. Some of the companies serve the local oil and gas industry while others provide light manufacturing, training, consulting and professional services.

The annual budget of the business incubator is $115,000, with a professional staff consisting of Jasper Welch, the director, and Eileen Rothlisberger, the office manager. The Quality Center for Business, which includes all four of the programs located in this total 43,000 square foot facility, has a total annual budget of approximately $1.4 million, a full time staff of 13, of whom 7 are professional.

Mr. Welch reports that his expectations and challenges for the business incubator are to continue to recruit qualified start-up and emerging companies suitable for business incubation and to continue to develop cooperative programming between and among the various professional staff, programs and college facilities in the Quality Center for Business. He looks to continue the current program financial support at least until the end of the third year of
operations in December 2002 when he projects the Enterprise Center to be near the break-even point in operations, with leasehold revenues sufficient to cover program expenses. He notes that both San Juan College and funds from San Juan Economic Development have been instrumental in maintaining the incubator's financial stability and funding during the initial development stages.

His goal for 2002 is have the first incubator graduates from the Enterprise Center, with the expectation they will help diversify the San Juan County economy, add new jobs and add to the number of locally-owned businesses.

Notes. The Enterprise Center and the Quality Business Center should serve as a model for other New Mexico communities. Created with substantial local financial commitments, the community and its leaders made a thoughtful and well-reasoned plan to augment and integrate the area's economic development needs. The partnership with San Juan College appears to be working especially well and could be a valuable model for other regions with community and branch colleges to consider. The initial rent-up of the incubator is promising. While it is too early to predict the ultimate success of this endeavor, things are clearly off to a good start.

The plan to achieve break-even in operations by the end of next year may be ambitious. Incubators that provide a significant degree of business assistance are often unable to cover their program expenses from rents and require some additional program assistance. While some would call this a subsidy, creating jobs at a reasonable cost is an appropriate program expense.

Carlsbad.
A very recent incubator activity has commenced at the Advanced Manufacturing and Innovation Training Center. The Center was completed in 1997 with funding assistance from the U.S. Department of Energy. In the past year, three companies have become incubator clients in the 15,000 square foot portion of the facility set aside for incubation activities. One of the companies provides high precision machining services using proprietary technology and two others conduct light manufacturing activities. These companies have revenues exceeding $250,000, employ a total of five individuals and are experiencing rapid growth.

Also located at the Center are approximately 5000 square feet of classrooms and offices used for workforce training. The training program, provided by the Center's technology training program, is funded by user fees. The training provided ranges from general skills to industry-specific training needs.

Assistance to the incubated companies includes access to a $250,000 revolving loan fund created by the City of Carlsbad with matching funds from the U.S. Department of Commerce's Economic Development Administration. The Center also offers business plan services, assistance in identifying other sources of financing and assistance in identifying market opportunities. The local SBDC assists in providing business assistance to tenants.

Tom Brown, project manager, administers the incubator program. The incubator's annual budget is approximately $123,000 and its budget needs are being met by rental income.

Notes. The Center is making a good start in trying to provide an incubation program. At its present size, however, it will be difficult to achieve economies of scale as it tries to provide a broad range of business assistance services to tenants. Tom Brown reports that he hopes to identify additional clients who would benefit from services at the incubator and to ensure the continued viability of the program through additional financial support.
Silver City.
The Cooperative Ownership Development Corporation in Silver City has operated a business incubator but with the serious economic downturns the community is currently experiencing as a result of large layoffs at the mines, the incubator activity is quite minimal. Created in 1992, the incubator has enjoyed funding from various local and national foundations as well as the U.S. Department of Agriculture. When mining employment was high, the incubator was full, but with the mining layoffs, only a single private company is now located in the incubator. The incubator tenant is also served by the local SBDC.

Albuquerque.
Technology Incubator Needs. As indicated above, Albuquerque lacks an incubator program, despite the wealth of research and development resources at Sandia National Laboratories, the University of New Mexico, Air Force Research Lab and Lovelace Respiratory Research Institute. Based on these resources, Albuquerque would seem to be a promising place for a business incubator, especially one that assists technology-based companies. Nevertheless, efforts to obtain financial resources to support an incubator from the local business community have been unsuccessful. A legislative appropriation providing financial support was vetoed by the Governor two years ago.

Yet technology-based economic development is a natural avenue and prime opportunity for building Albuquerque's economy and reducing its dependence on federal expenditures. Technology commercialization in Albuquerque lags far behind that of other cities in the Southwest such as Austin, Phoenix, Boulder, Dallas and Denver, cities that enjoy far fewer research and development resources but where substantial governmental investments in support of technology-based economic development have been made.

The effort to bring a successful incubator to fruition in Albuquerque dates back to the mid-1980s. A multipurpose incubator was created in an office/warehouse facility near Osuna Blvd. and I-25 and was known as the Albuquerque Technology Incubator (ATI). The ATI was at the center of the buzz that then existed in the community about the prospects for business creation based on commercialization of technology from the University of New Mexico, Air Force Research Lab (then Phillips Lab) and Sandia National Laboratories.

But that incubator had marginal success, with both funding and management less than optimal. It was later moved to a rent-free facility at the UNM Science and Technology Park and responsibility was passed to the New Mexico Industry Network Corporation, which primarily provided manufacturing assistance to small business. Later, the Business Technology Group (BTG), a nonprofit corporation, was formed to take over management of the ATI. At that time, space for start-up companies was also made available at facilities of the Lovelace Respiratory Research Institute (LRRI). Despite heroic efforts by LRRI to assist the resident tenants at little or no cost, a true incubator program has not been possible in the absence of financial support. BTG has now been converted to the Next Generation Economy Inc. to serve as the Community Reuse Organization designated to distribute economic development funds made available in central New Mexico by the U.S. Department of Energy. Presently, LRRI continues to manage these facilities on behalf of itself and the Science and Technology Corporation at UNM (STC). STC manages technology commercialization at the UNM as well as the UNM Science & Technology Park where the ATI incubator is located.

The number of tenants currently occupying these “incubator” spaces despite only minimal assistance indicates how strong the need is for a full-service business incubation program in Albuquerque. Companies located at the ATI in the UNM Science and Technology Park include 14 start-up companies, two small nonprofit organizations and two service providers. At LRRI’s Gibson Boulevard facility, nine start-up companies occupy space, while at LRRI’s former ITRI facility on Kirtland Air Force Base, seven start-up companies are located. In total, these companies utilize more than 35,000 square feet of space.
A proper business incubation program would complement several favorable developments enhancing the prospects for technology commercialization in Albuquerque and the state that have occurred in recent years. These include:

- The recent investment, after several years of delay, by the Severance Tax Permanent Fund of almost $50 million in venture capital funds with New Mexico offices.
- Significant steps by Sandia National Laboratories to enhance commercialization of its technology through such measures as improved licensing processes and an entrepreneurial leave for its staff.
- The Department of Energy requirement that Lockheed Martin Corporation, as manager of Sandia National Laboratories, contribute to local economic development, leading to more than $13 million being made available through Technology Ventures Corporation to support technology commercialization.
- The creation of the Science & Technology Corporation @ UNM to commercialize UNM technology through licensing and start-ups.

Not as much of the funds invested in New Mexico venture capital funds has been invested in local start-up companies as had been anticipated. Some of the New Mexico venture funds who have received investments from the state to date are not able or willing to help develop new start-up companies at the very earliest stages, such as identifying the business proposition and assembling the management team, in the way that ARCH Ventures did for MicroOptical Devices, a successful start-up that was acquired only months after it began operations. To the extent that New Mexico venture funds are not able or willing to perform this role, the need for incubator assistance to technology start-ups to help them mature their products and business plans and attract investments from these venture funds is that much greater.

It is often said in the Albuquerque technology community that Albuquerque needs to significantly increase the present level of local start-up company activity if it is to reach the “critical mass” of start-up activity that appears to have enabled Austin, Phoenix, and Denver and other cities in the west to enjoy a geometric growth in start-ups in their communities. For example, with a significantly higher level of start-up activity, New Mexico may be able to attract more experienced start-up company managers. Many prospective managers now are reluctant to take jobs in New Mexico for fear that they will not find another suitable job in New Mexico should a change in jobs become necessary, given the precarious existence of start-up companies. Once New Mexico gains more of a reputation for the quality of its start-up companies, the more likely it is that out-of-state venture funds will co-invest with New Mexico-based funds, making not only more money available but access to more national industry and technical resources.

Dan Hartley, retired Vice President of Sandia National Laboratories and later interim director of the Next Generation Economy Initiative in Albuquerque, stated in a speech on the state of technology commercialization in Albuquerque last year that the level of start-up activity must be increased by a factor of ten. The same estimate is made by David Durgin of Quatro Corporation, easily the most experienced technology entrepreneur in Albuquerque whose background includes a stint as an engineer at Sandia National Laboratories, as a senior partner at Booz Allen and Hamilton and as founder or principal investor in more than 40 technology start-ups in the Southwest.

Notes. There can be little doubt that taking advantage of New Mexico’s technology assets requires more than just incubators. Superior business school educational efforts in technology management, adequate research budgets and investments in technology commercialization by New Mexico’s research universities, telecommunications infrastructure, economic cluster development, workforce training so local workers have the skills needed today and tomorrow, improved K-16 educational opportunities, and strong state and local leadership are also keys.

But technology incubators are commonly credited with much of the technology start-up success of Austin, Phoenix and Denver. In fact, Denver and Boulder have four successful technology incubators. The incubator managers there report that all they lack is more of what New Mexico has in abundance: available technology.
There are no current efforts to provide a full-fledged business incubation program for Albuquerque. The currently available spaces for start-up companies described above continue to attract tenants. As indicated above, however, a multi-tenant facility without a program of coordinated and comprehensive business assistance is not a true business incubator. The limited success of the ATI in its early days has likely discouraged support today. It may also be that some who might otherwise support an incubator believe true incubators already exist because spaces for start-up companies are available. Those who made significant efforts to obtain financial support from the state were discouraged when the legislative appropriation for this support was vetoed and legislation introduced the next year died in committee. It could be that unless the community itself assumes full responsibility to see that a technology incubator program is created in Albuquerque, none is on the immediate horizon.

Economic Development Incubator Needs. There also are no economic development or multi-purpose incubators in the Albuquerque area. Currently, however, two non-technology incubators are being planned in portions of Albuquerque that have not shared in the job growth enjoyed by other areas of the city.

One incubator is proposed for southeast Albuquerque by the Southeast Community Alliance (SCA). The SCA is a nonprofit organization seeking to promote and develop entrepreneurship for ethnic minorities. The City of Albuquerque has designated 110 acres of land as a Metropolitan Redevelopment Area in an effort to upgrade the business activity and residential neighborhoods there. The incubator being contemplated would be a multi-purpose incubator that would hopefully encourage and sustain new business activity in the area. At present, the SCA is seeking funds for a feasibility study to determine not only the opportunities for success with this endeavor but also to indicate the types of business assistance that would be the most beneficial. Meanwhile, the SCA will provide business assistance services, seek to identify funding opportunities and develop a statewide database of minority and women-owned businesses.

The other proposed incubator would be located in the south valley area of Albuquerque by the Rio Grande Community Development Corporation (RGCD). The initial 16,000 square foot first phase of the project is expected to open by July 2002. When completed, the entire project will consist of 33,000 square feet of buildings and cost a little more than $3 million. The facility would be known as the South Valley Economic Development Center (SVEDC). A nonprofit corporation, the SVEDC will be directed toward business revitalization and job creation in the south valley community where unemployment is substantially higher than in other areas in or near Albuquerque. A 3478 square foot shared-use commercial kitchen to prepare and process food products is also projected for this facility.

Las Cruces

New Mexico State University has made the Genesis Center, a four building complex with a total of 30,000 square feet, available for technology-based companies and others wishing to locate near the university. Some university units are also located there. The Center is located in the Arrowhead Research Park, created by NMSU seven years ago. An incubator program has been considered but funding has not become available for this purpose. A total of 16 companies currently occupy space in the Center, most of which are technology companies and some of which are based on NMSU-developed technology. As in the case of the Albuquerque, the absence of an incubator program in Las Cruces, with its proximity to both NMSU and White Sands Missile Range, means opportunities for technology-based economic development in this area are not being maximized.

Prospects for Incubators in Other Communities

An informal survey was made of the directors of most of the Small Business Development Centers around the state to obtain their insights on whether business incubators would be of significant assistance in creating jobs in their communities. With a couple of exceptions, the prevailing view was that the availability of a business incubator would have a very positive impact on the creation of new businesses in their communities. These same directors
stated that they frequently saw clients who could be referred to an incubator if one were available. Many cited examples where individuals who had always been employed for others need a path for transitioning from employee to employer, a place where they could share at an affordable cost all of the necessities of a fully functioning business operation such as reception, secretarial services, bookkeeping, copiers and fax machines and high speed internet access, and also enjoy immediate access to advice and assistance. One director in a middle-sized New Mexico community predicted that a 30,000 square foot facility could be fully occupied in a few months. Another said they were needed all over the state. Many cited the success of the new incubators in Santa Fe and Farmington. Many said it was the only realistic strategy for creating new jobs in their community. One experienced SBDC director said new businesses need a “mother hen”, a role an incubator could serve.

Roswell previously enjoyed a business incubator program but the building in which it was located became unsuitable and the operation had to be discontinued. Consideration is being given to creating another. Hobbs identified space for a business incubator several years ago and three businesses are currently located there. However, funds to provide typical business incubator services and assistance have been lacking. Likewise, facilities for start-up companies have been made available in Espanola but business incubator services are not provided.

**Financing for Rural Business Start-Ups**

It is clear that access to capital is critical to any program of business creation. Nearly all of the SBDC directors mentioned the difficulties their clients have had in accessing financing to enable them to start and sustain new businesses. For an enhanced program of business assistance through business incubation to be fully successful, more widely available access to loans for micro and small businesses must be provided.

In many communities, micro and small businesses are most often benefited by the funds loaned by one of three organizations:

- New Mexico Community Development Loan Fund, a community development corporation with offices in Albuquerque and Roswell, appears to have the broadest service coverage around the state,
- ACCION New Mexico, an Albuquerque-based nonprofit corporation, makes loans and provides business assistance in several New Mexico communities, and
- WESSTCORP, a micro and small business nonprofit lender also based in Albuquerque, that is supported by the Small Business Association and primarily serves women and minority-owned businesses with loans and business assistance, including several communities outside Albuquerque.

In several communities, new loan programs have recently been created or are being created, many through loan programs of the U.S. Department of Agriculture. A few examples:

- Carlsbad created a revolving loan fund now totaling $250,000 with matching funds from the Economic Development Administration.
- A revolving loan fund for the Grants, Gallup and Farmington areas, among others, has been created by the Northwest New Mexico Council of Governments, which includes San Juan, Cibola and McKinley Counties. The City of Farmington contributed $300,000 from Community Development Block Grant funds and an equal amount came from a Ford Foundation grant. This fund has now been augmented by $750,000 from the USDA.

In some communities, the financing need has been identified as one to fill in financing “gaps”, such as when a small business cannot quite meet the loan-to-value ratio required by a commercial lender. In such a case, a loan fund could enable the commercial loan by providing equity or debt subordinated to the collateral position of the
commercial lender. Other communities see the need as the ability to provide term loans directly, rather than to fill “gaps”. Whatever the case, it is clear that availability of financing is a key part of business creation in rural areas.

VI. Recommendations

General. In view of the long-standing recognition that New Mexico needs economic development to wean its economy from reliance on government expenditures, it is time to consider implementing new or augmenting existing business incubation programs around the state. This is true not only in Albuquerque where incubator assistance to technology companies is long overdue. It is also true for portions of Albuquerque with chronically high unemployment and as well as for cities outside the Rio Grande Corridor that have limited opportunities for creating new jobs through recruitment of industry.

Creating business incubation programs is not a “quick fix”. It is a long-term process that may take as many as five years of operation to demonstrate its capabilities. In contrast, industrial relocation can bring many jobs very quickly and therefore often has more superficial appeal. But industrial relocation is chancy and often requires substantial financial inducements.

1. Increase the Number of Business Incubators In New Mexico. Business incubation is a job-creation strategy that is well suited to address New Mexico’s need to improve economic development, yet its advantages are not well known around the state. The New Mexico Economic Development Department should make information about the advantages of business incubation available to community leaders around the state and should serve as a resource to stimulate realistic consideration of the potential advantages of business incubation. The National Business Incubation Association and its members in New Mexico can provide assistance in this regard. In particular, legislators and community officials from around the state should visit the Santa Fe Business Incubator and Farmington’s Quality Center for Business to serve as examples of how business incubators can help their communities.

2. Incubator Assistance for Technology-Based Businesses. With only marginal business assistance available at the business incubator facilities in Albuquerque and Las Cruces, means should be found to enable appropriate incubator programs to be created in these communities. This will likely require some combination of state and local funds, including private funds, combined with grants from federal programs. The states around New Mexico are enjoying the benefits of technology-based economic development because of the investments made there by local and state governments and the private sector. There are no free lunches.

3. More Incubators in Rural New Mexico. New Mexico needs to join the many states that utilize incubators to enhance economic development activities in rural areas. Well-crafted programs are succeeding and the the National Business Incubator Association has identified the success factors for these incubators. There are indications of need for incubators in communities around the state that do not now enjoy incubators, based on the informal survey of SBDC managers discussed above.

4. Greater Use of Business Incubators to Help High Unemployment Areas. As indicated above, business incubators have the potential to create jobs where more traditional job-creation strategies do not. The Taos Food Center demonstrates that even in the most unpromising circumstances, a well-crafted and executed strategy to create economic activity can make a substantial contribution by creating a new class of local entrepreneurs. Using incubators to create economic activity in traditional high-unemployment areas such as southeast Albuquerque and southwest Albuquerque incubators seems very promising. If the two new incubators proposed in Albuquerque are well-managed and financed in a manner that allows them to
implement the “best practices” for incubator operation, they will have a very beneficial effect of their service areas. There are doubtless other areas of New Mexico where similar strategies can provide substantial benefits

5. **Support for New Mexico’s Existing Incubators.** The existing incubators in New Mexico demonstrate the strong potential for job creation through this strategy. However, among those that actually meet the NBIA definition of incubators (see Appendix III), not all have sufficient resources to provide incubator programs to implement the “best practices” identified in NBIA-sponsored studies. Unless these “best practices” are implemented, success from these incubators will be limited. In addition, those facilities lacking the business assistance programs to allow them to be considered true incubators should be provided the necessary resources so their potential as incubators can be realized. It is also very important that both types of assistance be provided over a substantial period of time. Like many government programs, incubators sometimes receive adequate support in their early stages but are sometimes overlooked as public officials seek newer strategies for success or determine there are more important short-term needs. Business incubation is a long-term strategy that requires long-term support. For example, the Santa Fe Business Incubator has enjoyed much early success but funding for its current operations and for its expansion phase is becoming more scarce. Constantly requiring incubator managers to scrounge for financial support not only detracts from the time they can spend providing business assistance; these demands can also influence morale and lead to premature loss of experienced incubator leadership.

6. **Statewide Incubator Program.** Other states have begun the process of creating statewide incubator networks intended to stimulate additional incubator development and sustain and improve existing incubators. Such a step should be considered strongly in New Mexico. Statewide incubator programs can provide a means of continued education and support to incubator managers and also enable incubator tenants to become aware of other incubated companies in New Mexico with whom they may be able to work or who may be able to assist them. Some states also provide grants or matching grants to enable communities without business incubators to determine whether business incubators could be of assistance and, if so, to determine the type of programs that would be most advantageous. North Carolina has had such a program for years, Maryland has recently implemented one and the state of Kentucky has recently funded such a program. Kentucky’s program was modeled on that of North Carolina and could serve as an information resource for New Mexico.

7. **Additional Business Financing.** The need for additional loan funds in rural New Mexico was evident in the course of the interviews conducted for this report. A study should be made to determine how the activities of the New Mexico Community Development Loan Fund, ACCION New Mexico and WESSCORP around the state could be expanded or augmented or other loan programs, such as those of the Economic Development Administration or the USDA could be accessed to a greater extent.

**Appendix I. A Note Concerning the Preparation of this Report**

In developing this report, the author consulted a large volume of information concerning incubators that has been developed by the National Business Incubation Association and the Kaufman Foundation. He interviewed the leaders of New Mexico’s existing business incubators in New Mexico and utilized a survey distributed by the National Business Incubation Association to gather statistical and other information concerning their operation. He also interviewed a number of persons in New Mexico for their views of the need for business incubators. Given the limited time and scope of this report, a more extensive analysis of the subject was not possible.

The author has been involved in efforts to create technology-based economic development in Albuquerque for the
past twenty years. Because of his personal involvement, the report recounts the early history of technology commercialization in New Mexico, as it may be useful to know the backdrop for today’s efforts. He served as the lawyer for a number of Albuquerque technology start-up companies over the years beginning in the early 1980s. In 1995 he left the practice of law after almost 30 years to establish and run for five years an organization at the University of New Mexico to commercialize technology developed there through licensing and start-ups. He also served for several years on the New Mexico Venture Capital Advisory Committee. Currently he has a small consulting business, primarily providing assistance to start-up companies. He has gained an understanding of the advantages and challenges of business incubation over the years, in part because of his participation in National Business Incubation Association programs while at UNM, and in part because of his involvement with the Albuquerque Technology Incubator and the Business Technology Group, both of which are described in this report. For this report, this practical experience has been augmented by a review of the state of the business incubation industry and the “best practices” in business incubation. This task has been made much easier because of the excellent programs and publications of the National Business Incubation Association. The author also appreciates the time that the busy managers of New Mexico’s business incubators gave him in assembling this report.

Appendix II. Sources of Financial Assistance for Incubators

There are several sources of funds to create and operate business incubators. While it is beyond the scope of this report to detail all of them, summaries of the most common are set forth below. A more complete review of funding sources is set forth in the “2001 Practitioner’s Guide to Federal Resources for Community Economic Development” by the National Congress for Community Economic Development. See http://www.ncced.org/

Economic Development Administration. Perhaps no agency of government has had a more pervasive or beneficial effect on incubator development than this agency of the U.S. Department of Commerce. The EDA most commonly provides grants to create incubator facilities, but also has loan programs. The City of Carlsbad has such a loan program. See http://www.access.gpo.gov/su_docs/fedreg/a10314c.html

U.S. Department of Agriculture. The Rural Utilities Service, an agency of the USDA, provides interest-free loans for incubator projects, feasibility studies and other expenses. The USDA also makes available Rural Business Enterprise Grants to acquire land and to construct facilities for developing small business enterprises. See http://www.rurdev.usda/

Department of Housing and Urban Development. HUD funds a number of economic development projects and programs. See http://www.hud.gov/cio/grants/fundsavail.html.

Small Business Administration. The so-called Prime (Program for Investment in Micro-Entrepreneurs) legislation written by Senator Pete Domenici was enacted in 1999 to make funds available to provide training and technical assistance to “disadvantaged entrepreneurs” which includes by definition both low-income individuals and entrepreneurs lacking adequate access to capital. It also supports microenterprise development organizations. Implementation of the program had been placed on hold by the current White House, but after criticism by Senator Domenici the SBA posted application materials and other information on its website and apparently will implement the program. However, applicants were given only thirty days to make application. The program’s future beyond these grants is in doubt. See http://www.sba.gov/

Community Development Block Grants. Almost all communities receive federal CDBG funds which can be used to support economic development programs such as business incubators.
Proposed LEADERS Act of 2001. The LEADERS Act is new legislation currently being proposed by Senators Edward M. Kennedy and Mike DeWine. It aims to strengthen the role education plays in entrepreneurship by encouraging colleges and universities to make business incubation an integral part of their missions. A $20 million fund for each of the next three years would be established to provide competitive grants to acquire or renovate space for an incubator at a college or university, develop curricula or training for incubator businesses or managers and conduct feasibility studies on siting and developing an incubator.

Appendix III. NBIA Definition of Incubators

The National Business Incubation Association requires that incubators included in its industry directory meet a minimum test: the program should have a comprehensive set of business assistance services designed to serve startup and fledgling businesses with the goal of improving their chances to grow into healthy, sustainable companies. This is generally interpreted to include, at a minimum, business and market plan development, financing assistance, advice in growing a management team or other such major services. The incubator program should have a manager working on-site (at least part-time if not full-time) to advise clients and help them access its network of business service advisors, and it should have a client graduation policy. This means that the incubator must move clients through a program of support during which they meet benchmarks and are eventually moved out on their own (that is, they are no longer dependent on the advisory services), and they must expel recalcitrant clients that don’t meet benchmarks for advancement or who fail to thrive or meet other graduation criteria.

NBIA recognizes that some clients may remain tenants in the incubator building even after they are no longer dependent on the services designed to help start-up companies. These firms represent “anchor” tenants, firms that are mature and capable of paying higher rental rates and thus providing stability to the incubator operations because they are a source of cash flow that is more reliable than the revenues from the startup firms. These anchor tenants are still considered graduates of the incubator program.

Self-styled “incubators” that do not meet the above minimal requirements may become members of the NBIA, but they will be recognized in the Association’s industry directory as “incubator-like” rather than as true incubators.

(Source: National Business Incubation Association)