

NMEDD Update

LFC

Gallup, NM

May 9, 2018

Agenda/Topics

- Overview
- Economic Development Toolbox – “And” & “Both”
- Economic Development Activity and Efforts in NW New Mexico
- BR&E – Business Retention & Expansion
- Looking Ahead – Consistency, Predictability & Continuity

Overview & Rewind: Building a Better Business Climate

- Under Governor Martinez's leadership, over the last 7+ years, we have demonstrated a steady commitment to building a better business climate in New Mexico.
- Big and Small Actions
 - Unemployment Insurance Fix
 - Worker's Comp Insurance Fix
 - NTTC Fix
 - Corporate HQ SSF Methodology
 - CIT Rate Reduction to 4.9%
 - Reduced Fees and Taxes 57 times
- \$50M LEDA/Job Creation Closing Fund
- JTIP funding to all-time high
- New tools to support entrepreneurship:
 - Innovation Vouchers
 - SBIR Matching Grants
 - \$40M Catalyst Fund for VC Investing in NM Start-ups
 - Angel Investment Tax Credit Expanded
 - CEP/Credit Enhancement Program

Gaining Traction in the Long Game of ED

- Economic Development is a long game and we are seeing results:
 - 2010YE Unemployment was 8.1%
 - March 2018 Unemployment came in at 5.6%
 - With flat to minimal job growth in O&G and Government
- Across all our diverse programs, NMEDD has assisted in the creation of over 15,000 jobs, since 2011 during the Martinez Administration
- This has come in the face of three economic headwinds and a headcount erosion/reduction at one of the largest private sector employers

The ED Toolbox – “And” & “Both”

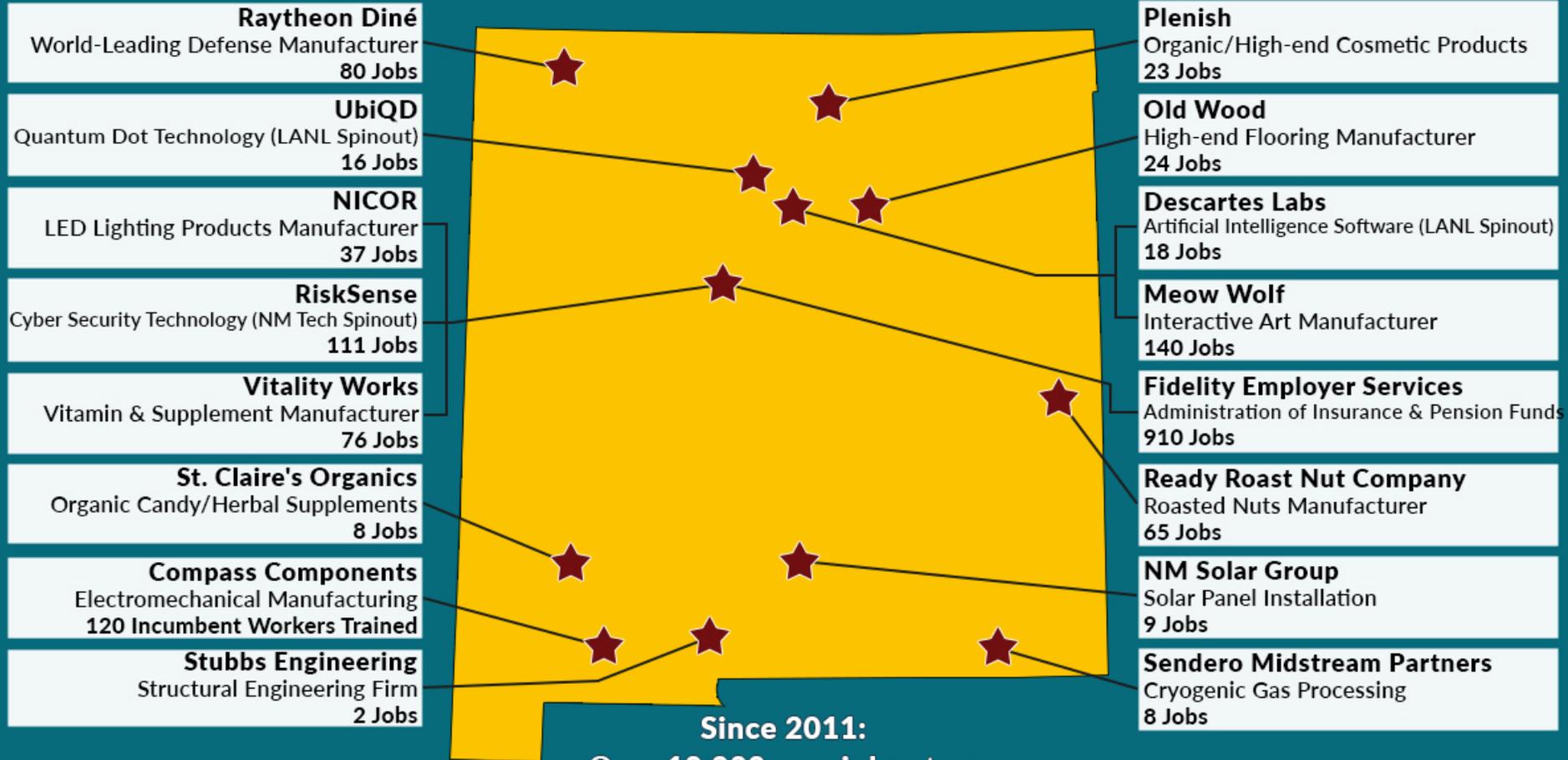
The ED Toolbox, Our Programs....

- Drive Incrementalism on the margin:
 - Mt. Taylor Manufacturing for 5 jobs in BernCo and retention in Milan
 - T or C Brewing 10 jobs in downtown T or C
 - Jack's Plastic Welding 2 jobs in Aztec
- Make Bumps and Jumps
 - CareNet for 244 Jobs (and there is an important biz climate story here, too)
 - 2NDGEAR for 100 jobs
 - Raytheon-Dine for 80 jobs in the 4C/Navajo Nation
- Propel Big Leaps and Tectonic Shifts:
 - Lowe's, Safelite coming in to employ ~1000 when the unemployed count was 25-30K
 - Fidelity (1300) and SW Cheese (400) with steady climbs to major employment
 - Facebook making an impact in construction jobs and GRT revenues that is having a transformative impact on the region as the first player in a new potential industry cluster

Helping Companies Grow & Expand

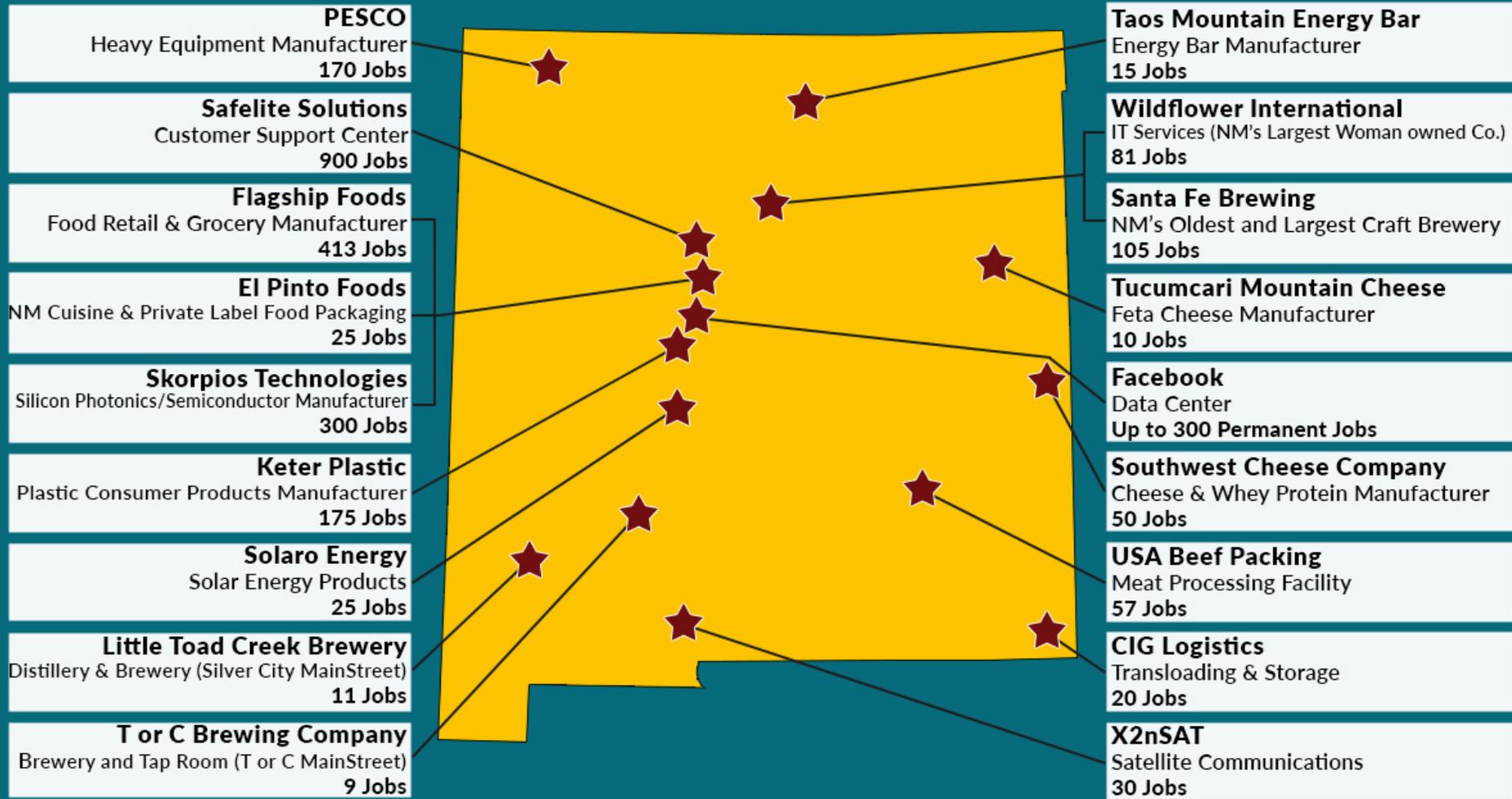
- Since 2011, 68% of JTIP companies and 57% of LEDA companies have been homegrown New Mexico firms.
- Over the same period, 75% of JTIP appropriations and 40% of LEDA appropriations have assisted in the expansion of businesses already located in New Mexico.

A Sampling of JTIP Companies



Since 2011:
Over 10,000 new jobs at an
average wage of \$18.30/hour.
216 companies assisted.

A Sampling of LEDA Companies



Accountability, Compliance, Protecting Taxpayer's Dollars

LEDA

- Due Diligence:
 - Finance analysis of company including a credit check
 - ROI/Economic impact calculated
- Security instrument/collateral in the event of a clawback scenario
- Public process with fiscal agent
- Job reporting (Quarterly)
- Annual performance review
- Post-project close-out EIA
- Phased pay-outs at performance milestones
- Two reviews of qualified expenditures before disbursement

JTIP

- For FY17, JTIP increased minimum wage entry levels in urban areas from a low of \$9.00 to \$11.00 and for rural areas, from \$8.00 to \$9.50.
- For 3rd party BPO customer care centers, the wage went from \$11.22 to \$12.50.
- Added an intern program to encourage hiring college students
- Job creation in a federally designated colonias may be eligible for 75% wage reimbursement
- Compliance and protection measures:
 - Post performance audit and payment
 - Must be compliant with CRS-1 and UI reporting
 - Annual retention analysis through DWS

Economic Development in NW New Mexico

Projects Assisted in Cibola, McKinley & San Juan Counties (JTIP/LEDA)

- Animas Environmental Services
- El Morro Theater
- HaulRite of 4 Corners
- Independent Mobility Systems
- Industrial Repair Systems
- Jack's Plastic Welding
- Laguna Industries
- Mt. Taylor Manufacturing
- PESCO
- Open Loop Energy
- Raytheon Diné
- Thunderbird Supply
- Wood Group Generator Services

Additional NMEDD Support

- Two Certified Business Incubators
 - Navajo Tech Innovation Center
 - Enterprise Center at San Juan College
- MainStreet
 - Aztec (Frontier Community)
 - Farmington
 - Gallup (ACD/MS)
 - Zuni/Halona Market
- LEADS Grants: \$70K last three FY



BRE = Business, Retention & Expansion

A Core Activity of the NMEDD in the Field

BRE – Business, Retention & Expansion

Why:

- Community economic health is dependent on the number and quality of jobs
- Good jobs keep residents (and talent) living in NM
- Competition for recruited projects is fierce
- Major companies are not building new facilities at the same rate they once did

How:

- Avail resources to support growth
- Provide assistance with issues that could stymie success or even worse, force a company to fail, downsize or relocate

What/Outcomes:

- Keep or increase local jobs
- Preserve or increase the tax base
- Increase property values
- Enhance community image, increase community/civic pride
- Maintain or diversify the regional economy

The 3 As of BRE

- Accelerate: Identify companies that are primed for growth and help them reach their goals more quickly with the right tools
- Augment: Assist the company stretch, augment the expansion for incremental effect
- Anchor: Identify companies and what they need to succeed
 - When the company is doing well, they may begin to be courted by other states
 - Identify them early and help them become the anchor tenant in the community that you point to as success

What happens on a typical BRE Visit?

- Discussion on what is driving the business? In which direction is it trending? Are there barriers or impediments to growth and viability?
- Toolbox overview – what may work for you today, tomorrow, down the road v. company's opportunity/need:
 - Tax - CIT/SSF, GRT Deductibility of Consumables in the Manufacturing Process, NTTC Fix, MTC, HWJTC
 - JTIP, LEDA – How it can support your growth, program overview, substantive contribution from the company
 - Local tools
 - Other Resources: WOIA, NMSBA, MEP
- Supply Chain/Supplier Needs
- Do note:
 - The effect of visits do not show up in the metrics in the short term
 - Expansions take much longer to come forward, smaller number of jobs with a specific capex gap to bridge
 - Yet these jobs do deliver a diverse and multi-faceted benefit...
 - Most businesses are driving for efficiencies, productivity etc. which frees up capital for reinvestment into the company for a more effective, viable enterprise

BRE Visits in Cibola, McKinley & San Juan Counties

- American Equipment Manufacturing
- Andeavor
- Antelope Sales & Service
- Barrick Gold
- BNSF
- C & E Concrete
- Cooper Fire Protection
- E3 Power & Water
- Gallup Coffee Company
- ISBU IT
- Jack's Plastic Welding
- Kinder Morgan
- McKinley Paper
- Mt. Taylor Manufacturing
- New Mexico Milling
- Open Loop Energy
- Peabody Energy
- PESCO
- Raytheon Diné
- Sacred Wind
- Stewart Brothers Drilling
- Tse Daa Kaan Linen Services

Looking Ahead

The Importance of Consistency, Predictability, Continuity

The Importance of Consistency, Predictability, Continuity

- Not just an ED Toolbox for recruitment but even moreso for economic growth, health, investment, vibrancy....
- And on the tax front... Tax reform has the potential to impact every business in the state.
 - CIT rate reduction benefited companies of all sizes across the state
 - And this is particularly the case with B2B Pyramiding:
 - During the recession, some companies sought out growth opportunities elsewhere and they are now multi-state companies. And they can allocate resources and job functions into the optimal spot.
 - Companies only located in NM are punished the hardest. They have no options or means to escape it.
 - Example: Company in SE NM with operations in NM and TX can choose what to do in each state. The attorney, the professional services etc. is 7-8% cheaper in TX.

→ A Body in Motion Stays in Motion

Supplemental

FY19 NMEDD Budget

Executive Recommendation	2018 Legislative Funding	Impact
\$10 Million for LEDA	\$5 Million for LEDA	Our LEDA fund balance won't cover the project pipeline
\$12 Million for JTIP	\$9 Million for JTIP	JTIP won't create 500 jobs across the State
\$350,000 to restore MainStreet's budget to FY16 levels	\$200,000 for MainStreet's Budget	MainStreet will serve fewer Arts & Cultural Districts, Frontier and MainStreet Communities
\$1 Million for \$14 Million backlog of construction ready MainStreet projects	\$500,000 for MainStreet's Projects	MainStreet doesn't have enough to fund the growing backlog of shovel ready projects
\$200,000 for International Trade to backfill an expired federal grant	\$150,000 for International Trade & Exports	International Trade will have a diminished ability to help New Mexico companies grow abroad and attract FDI to the state

JTIP and LEDA Fund Balances

- JTIP

- Wrapping up FY18 with reversions
- FY19 funded at \$9M
- Current backlog:
 - Short-term: \$2.5M
 - Long-term: \$6.4M

- LEDA

- \$43.4M
- Pipeline >\$100M

JTIP Budget Report as of May 2018

• Cash Balance (FY18 budgeted funds less FY18 expenditures)	\$ 15.2M
• JTIP Current Obligations	<u>(13.9M)</u>
• Unobligated Balance	1.3M
• FY19 Special Appropriation	<u>5.0M</u>
• Unobligated balance for remainder of FY18	6.3M
• May Agenda	(1.5M)
• June Prospects-JTIP & Film (estimated)	<u>(1.5M)</u>
• Unobligated balance end FY18	\$ 3.3M
• FY19 Recurring Appropriation	<u>4.0M</u>
• Est. Unobligated Bal for FY19	<u><u>\$ 7.3M</u></u>

Raytheon Diné

- Located on NAPI, on the Navajo Nation for more than 25 years
- The Diné Facility provides parts that support 12 missile programs
- Expanded in 2017 with a new 30,000 SF warehouse, a \$5M investment by the Navajo Nation, leasing the facility to Raytheon
- State LEDA award of \$200,000 in 2014 supported architectural design of the new building
- 350 employees + 80 new jobs supported by JTIP (\$563,746.80)
- Workforce is 93% Navajo



“Our NAPI facility has delivered exceptional production and safety metrics, making it the ideal location for us to expand our high-rate production capability.”

Louise Francesconi, President, Raytheon Missile Systems

PESCO

Process Equipment & Service Company

- Engineering, design & manufacturing of production equipment for the oil & gas industry since 1970
- Homegrown steadily with the help of JTIP (see box)
- Currently undergoing a \$5.3 million expansion that will create 170 new jobs
- LEDA investment of \$1 million



2001, \$219,626: 48 Jobs
2003, \$259,411: 45 Jobs
2004, \$93,425: 21 Jobs
2014, \$351,652: 52 Jobs
2017, \$749,854: 68 Jobs

What is an Economic Base Job or Business?

Economic Base Jobs and Businesses are manufacturers and companies that provide services that are non-retail in nature and export at least 50% of the services to a customer base outside New Mexico. These jobs are considered the “base” of the state and local economies and provide the jobs that support retail workers.

Retail Jobs or Non-economic base businesses circulate the same dollars around the region and bring no outside monies to the community.