NEW MEXICO
LEGISLATIVE
JOBS COUNCIL

New Mexico Legislative Jobs Council Report

2016

Introduction

NEW MEXICO LEGISLATIVE JOBS COUNCIL

CELab Community Economics Laboratory

New Mexico must fix one thing before it can fix any of its other problems. That one thing is the rate of economic base job creation. Economic base jobs are critical because they are the major source of annual income for the state's economy.

Over the past decade or more, New Mexico has grossly underestimated how many economic base jobs it would need because we underestimated how many we were and likely still are losing each year.

Attrition has been much higher since the recession and continues to rise, driven by technology, network forces and globalization. Until the state and its communities are creating enough new economic base jobs every year to replace attrition, there won't be enough tax revenue or job opportunities to reduce unemployment, raise household incomes, reduce poverty, improve business profitability, stop the exodus of talent or any of the other things we want to fix.

The Jobs Council was formed four years ago to determine how many economic base jobs would have to be created every year and what would have to be done to create them.

The Council's consensus estimate is that the state will need to create roughly 15,000 new economic base jobs per year over the next 10 years to offset a rising rate of natural attrition, close the unemployment gap and to provide for nominal population growth. The Council found that the current capacity of the state's existing job-creation programs is approximately 7,500 per year, which means it needs to double to reach the needed 15,000. If there were no population growth in the next ten years, the state would still need to increase production by 50%.

> **"creating these additional 7,500 jobs a year is going to require a major expansion of state and local job-creation efforts over the next decade.**

While doubling the state's rate of economic base job creation sounds daunting, the Council's consensus estimates exceeded projected needs by a substantial margin. But creating the additional 7,500 jobs a year is going to require a major expansion of state and local job-creation efforts over the next decade.

In its first two years, the Council was instrumental in passing a series of bipartisan initiatives of the Legislature and the

Governor's Office that included corporate income tax reform, expansions of the Local Economic Development Act, training programs and tourism marketing. Those initiatives improved the state's competitive position and are directly responsible for the recent rise in the number of job-creation announcements.

Further action on the Council's initiatives has been frustrated by the state's budget crisis, a lack of prescriptive planning at the local level and the lack of a more rigorous accounting and reporting system needed to justify higher levels of investment.

In the short term, cutting investment in critical economic base job-creation programs would erase recent gains in capacity and postpone our economic recovery for years. It is just as crucial that the state continue work on putting the planning, underwriting and accounting systems that need to be in place in 2019 when the next governor and state Legislature will want to resume raising investment in economic development.

This year's report includes various online links to in-depth reports on the Council's work. Anyone interested in what it will take to get their local or regional economy back to full employment and the state out of its fiscal crisis will find much of what they need to know in the Council's report. Please address any questions to the 2016 co-chairs, Senate President Pro Tem **Mary Kay Papen**, Speaker **Don Tripp** or **Mark Lautman**, the Council's contract team lead.

Co-Chairs of The 2016 NM Legislative Jobs Council:

Don Tripp
Speaker of the House 2015-17
trippsdon@netscape.net

Mary Kay Papen
Senate Pro Tem 2010 - present
marykay.papen@nmlegis.gov

The 2016 NM Legislative Jobs Council Contract Team:

Mark Lautman
mark@marklautman.com

Paul Hamrick
paul@marklautman.com

Charles Lehman
Jim O'Neill
Dale Hendrickson
Helen Huntley

Executive Summary

The New Mexico Jobs Council has developed, for the first time, a simple and compelling picture of what needs to happen if the state is to generate the financial and other resources needed to address mounting social, environmental and economic challenges. The findings recorded in this report are the product of data developed by unanimous consensus from group deliberations from each county and region in more than 100 meetings over the past three years.

The state needs roughly 151,000 new economic base jobs over the next 10 years to return to pre-recession employment levels based on the Council's **state-wide consensus assessment**. The good news is that there is potential for creation of more than 180,000 new economic base jobs, almost 29,000 more than would be needed. In other words, 151,000 is a big number but everyone involved believes the jobs are there.

> "everyone involved believes the jobs are there.

Equally important is that, for the first time, the state and its communities have a **framework and process** that allow the state's stakeholders at any level to expand or change their consensus assessment at will as conditions or insights change.

The only practical path to solving the state's budget crisis and getting back to pre-recession employment levels is to elevate the rate of **economic base job creation.** Economic base jobs are jobs where the products and services produced are paid for by sources outside the state economy thereby growing the economic pie. If it were not for the distinction between economic base and non-economic base jobs, one could solve a community's unemployment and tax revenue problems by opening 10,000 laundromats.

Without a net increase of economic base jobs each year, most downstream economic development efforts to add new jobs in the local retail and businesses services sectors only result in proportional layoffs by existing by employers in the same business.

Using this logic, the Jobs Council concluded that the rate at which the state creates new economic base jobs is the single most important factor determining whether the state's economic pie will grow or shrink in the future.

There are other factors that impact how much money flows into the state economy such as federal transfer payments, mineral royalties and interest from the permanent fund but new economic base job creation is not just the largest potential source of new money and employment to grow the size of the economic pie it is the only source over which the state has any real influence.

To successfully exert influence over the development of the future economy, the state must have a reasonably sound assessment of how many economic base jobs will be needed to offset attrition. Underestimating the rate of attrition leads to chronic underinvestment in economic base job creation efforts. In most places, the overwhelming majority of new economic base jobs needed every year are needed just to offset attrition. Over the next ten years, New Mexico will need to generate 93,771 new jobs or over 9,000 per year before any progress can be made against unemployment or supporting growth in population.

Globalization, innovation, the power of networks and automation have been driving a steady rise in the natural attrition rate of economic base jobs in every country. Since the recession, New Mexico's economic base job attrition rate has been even higher due in part to the extensive, hard-to-detect losses from the downsizing of federal and contractor related employment,

The Council's Mission

The Jobs Council's primary directive is to get clarity and consensus on what it will take to get the state back to pre-recession employment levels in ten years. The process, developed by the Community Economics Lab, calls for a broad spectrum of stakeholders and subject matter experts to reach unanimous consensus on the key data points that frame the answers to four derivative questions at the county, regional and state levels:

1. *How many economic base jobs will need to be created in ten years?*
2. *What program efforts could deliver them - with a reasonable level of strategic investment?*
3. *What specific factor of production gaps would have to be cured for these economic base jobs to materialize?*
4. *What actions and investments would be required to cure the gaps?*

After four years and more than 50 day long deliberative sessions, consensus assessments have been developed for each county and region which, when aggregated, provides an overall state-wide assessment.

The assessment consensus estimates herein are derived from deliberations of stakeholders at the local and regional levels and can be updated at will as insight improves and conditions change. Changes to assessment assumptions from this year's refinement sessions seemed to have little or no impact on related program dimensions.

automation at Intel, and the recent contraction in the oil, gas and coal mining sectors.

In the last four years, passage of the Governor's corporate income tax cut, the expansion of LEDA, continuation of training funds, expansion of the Tourism marketing budget, restoration of the film cap and other actions have substantially improved the state's regional competitiveness and are beginning to grow the number of job creation projects in the state's pipeline. Over the last two years, most of the Jobs Council's initiatives have become hostage to the budget crisis. These and other initiatives have dramatically improved the state's competitive position for job creation resulting in a marked increase in the number of projects in the state's pipeline. Failure to protect current funding levels in key programs will reverse these gains and doom any chance of progress in the near term.

With the likely continuation of the budget crisis and two years of divided government ahead, the state may be in a better position to invest in a scale expansion of the job creation apparatus under a new governor and legislature in 2019. In the meantime, the Jobs Council will continue to identify projects that do not require additional legislative funding and begin focusing on development of a **planning template** for 2019.