

**MINUTES
of the
FOURTH MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**September 19, 2017
War Eagles Air Museum
Santa Teresa**

**September 20, 2017
Barbara Hubbard Room
Pan American Center, New Mexico State University
Las Cruces**

The fourth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee for the 2017 interim was called to order by Representative Bill McCamley, chair, on Tuesday, September 19, 2017, at 9:00 a.m. at the War Eagles Air Museum in Santa Teresa.

Present

Rep. Bill McCamley, Chair
Rep. Alonzo Baldonado (9/19)
Sen. Craig W. Brandt (9/20)
Sen. Joseph Cervantes
Rep. Sharon Clahchischilliage (9/19)
Rep. Kelly K. Fajardo
Rep. Harry Garcia (9/19)
Sen. Ron Griggs (9/20)
Rep. Jimmie C. Hall
Sen. Richard C. Martinez
Rep. Jane E. Powdrell-Culbert
Rep. Debbie A. Rodella
Rep. Patricio Ruiloba

Advisory Members

Rep. Bealquin Bill Gomez
Sen. Mary Kay Papen
Sen. John Pinto
Rep. Tomás E. Salazar
Sen. Bill Tallman

Absent

Sen. Jacob R. Candelaria, Vice Chair
Rep. George Dodge, Jr.
Sen. Michael Padilla
Sen. Nancy Rodriguez
Rep. Patricia Roybal Caballero
Sen. William E. Sharer
Rep. Linda M. Trujillo

Rep. Brian Egolf
Rep. Patricia A. Lundstrom
Sen. Clemente Sanchez
Rep. Sheryl Williams Stapleton
Sen. Jeff Steinborn
Sen. Pat Woods
Rep. Monica Youngblood

(Attendance dates are noted for members not present for the entire meeting.)

Staff

Jeff Eaton, Staff Economist, Legislative Council Service (LCS)
Rebecca Griego, Records Officer, LCS
Tessa Ryan, Staff Attorney, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Tuesday, September 19

Welcome

Gilbert Mesa, chair, Border Industrial Association (BIA), welcomed the committee to the area. He noted that the association works to bring more industry to the region, is the primary industrial group in the border area and is growing.

Colonias Infrastructure Update: Existing Challenges to Timely Expenditure of Funds and Process Improvement

Doug Moore, chair, Colonias Infrastructure Board (CIB), presented on the Colonias Infrastructure Program (CIP) administered by the NMFA. Robert P. Coalter, chief executive officer (CEO), NMFA, and secretary, CIB, who was in the audience, recognized another member of the CIB, Priscilla Lucero, also in the audience. They, along with Marquita D. Russel, chief of programs, NMFA, participated in the discussion that followed Mr. Moore's presentation, which he delivered as follows.

The 12-member CIB has worked actively since the program's inception to improve its administration and to make efficient use of its resources. Specifically, the board has been dedicated to ensuring that all projects funded through the program reach completion and to leveraging state money to attract local and federal funding. Moreover, in the last three years, the CIB has worked to: 1) reduce the average time from project award to the receipt of project money; 2) streamline the application process by aligning it more closely with the Water Trust Board program; and 3) respond productively to the executive order requiring that recipients meet certain audit requirements. A graph and table in the presentation handout show the history, by location, of the CIP project awards, which total over \$75 million and which have been used to leverage about \$120 million in non-state funding.

Questions and Discussion

Challenges to timely expenditure of program funds; efforts to overcome that inefficiency. Referring to recent Legislative Finance Committee reports highlighting inefficiency in spending across several of the state's infrastructure programs, committee members and others participating in the discussion offered plausible reasons for spending delays in the CIP.

Members commented that: 1) frequently, the delays occur during the period of Department of Finance and Administration control over the release of program money; and 2) sometimes projects are prolonged by efforts to comply with federal grant requirements. Ms. Lucero and Ms. Russel attributed some of the delay to the involvement, in many cases, of multiple agencies. Ms. Russel suggested that the reports are limited in their presentation of information, in that they do not include data on program money obligated but not yet spent.

Mr. Moore added his remarks about the actions the CIB has taken to speed efficiency in project spending and otherwise improve the CIP: 1) the board annually reviews program policies through the solicitation of feedback from applicants, staff and other agencies; 2) the project review committee of the board places a priority on projects that will progress on track; 3) staff regularly follows up with project sponsors when project progress lags, and at times, funding authorization is revoked when extensive delays are foreseen; and 4) over the program's history, events like the NMFA fraudulent audit and the issuance of the audit-related executive order have contributed to program inefficiency.

Relatedly, Ms. Russel noted that the program's funding process has evolved from one in which funding was awarded before projects were ready to one in which readiness-related obligations must be met before awards are made. Ms. Lucero added that she has observed improvements to the program that help accelerate spending.

Clarification and additional points about the program. Responding to members' questions for clarification about the program, Ms. Russel said that: 1) if a sponsor uses only a portion of project funding for a project, the remainder could be used for an extension of that project, but not for a new project, pursued by the sponsor; 2) only entities with a governing body qualify to participate; 3) since many projects are located within unincorporated parts of counties, often, mutual domestics or counties act as project sponsors; 4) only projects whose useful life matches or exceeds the financing period qualify for funding; and 5) the program features a minimum-leverage requirement, which results in the NMFA's frequent interaction with the U.S. Department of Agriculture. Mr. Moore added that: 1) staff can help applicants secure a fiscal agent, which can be a council of governments (COG); 2) only applicants that are current on their audits and are able to maintain the project are selected for funding; 3) staff members advise participants on achieving self-sufficiency to manage projects into the future; 4) funding is available for new infrastructure or improvements to existing infrastructure and for a range of infrastructure types; and 5) whether to rehabilitate or replace existing infrastructure is decided by the applicant and its engineering staff.

Mr. Moore talked briefly about project completion in the program. He said that no program-funded project has ever not reached completion, largely because the program includes a routine funding plan review up front. In cases where available funding falls short of project cost, he added, consideration is given to funding the project in phases. Mr. Moore noted also that in one instance, an applicant lost its approval for, and never received, project funding because of the discovery of alleged criminal activity within the applicant entity.

Application rate. Mr. Moore cited as reasons for the reduction over time in the number of applications that: 1) potential applicants have developed an improved understanding of the program's applicability and restrictions; and 2) the program limits the amount of additional funding that active recipients may seek. Ms. Lucero remarked that, moreover, some participants have reached their borrowing capacity and thus cannot receive more program funding.

Request for information. Noting the importance to the program of predictability in funding amounts, a member requested information from the NMFA on recent years' legislatively effected decreases in the severance tax bond capacity earmarked for the program relative to the degree to which market changes affected the program's funding capacity.

Program improvement: past and future. Concerning the measures the NMFA board and staff have taken to improve the CIP, Mr. Coalter said that all of the NMFA's infrastructure programs have been centralized under the direction of one staff person, a change that promotes greater efficiency in meeting infrastructure needs, and that the NMFA has aligned the timing of those programs' application cycles.

A member asked those involved in the discussion for their recommendations for: 1) improving spending efficiency and the leveraging of money in the program; and 2) promoting a culture of borrowing, which fosters project completion, versus one of grant-making, which tends toward noncompletion. In response, Ms. Lucero suggested that legislators could be more informed on the status of projects in their districts and noted that COGs can help provide support when needed. One related idea, she said, is designating a staff person in each COG to assist with such project management, billing and meeting planning and otherwise offer practical support. She also remarked on the importance of helping low-capacity communities with planning and asset management through the Local Government Planning Fund program. Mr. Moore suggested offering program participants, perhaps online, training in basic management skills.

Representative McCamley requested that, at a future meeting, NMFA staff give its recommendations for promoting the borrowing culture discussed and for promoting more process unification in the context of multi-source project funding. Mr. Coalter agreed to the request.

Border Authority (BA) Update

William "Bill" Mattiace, executive director, BA, and David Espinoza, budget analyst, BA, updated the committee on the BA. Mr. Mattiace spoke as follows.

History and overview of the BA. The BA's development from a local to a regional authority came as business and land development, especially in Sunland Park and Santa Teresa, began to accelerate. In that time, housing, commercial outlets and border crossings have multiplied.

Through its collaboration with other American and Mexican entities, the BA is actively involved in regional planning. The overarching goal of that planning is to enhance the

movement of people and goods throughout North America. To that end, the BA sits on a U.S.-Mexico joint working committee on transportation planning, and it has engaged in projects that include a dual customs clearance at the Foxconn plant in Mexico, an international rail crossing and a project to help clear some of the cargo and visitor traffic congestion at the Columbus and Santa Teresa ports of entry (POEs). The BA also is exploring financing tools for trans-border projects. In other pursuits, the BA has collaborated with the Department of Transportation (DOT), including in an effort to spread awareness of the recent implementation of a tax on commercial vehicles crossing from Mexico.

Budget. Mr. Espinoza stated that the BA is submitting a recommendation for a flat budget of \$501,000 for the upcoming fiscal year.

Questions and Discussion

Mr. Mattiace clarified points made in his presentation as follows.

Activity at the Santa Teresa POE. With respect to the activity at the Santa Teresa POE: 1) the hours for southbound traffic were extended from 8:00 p.m. to midnight, and a bill to fund the extension of hours for northbound traffic was vetoed; 2) nearly 500,000 cattle cross each day at the Mexican-owned cattle crossing, at which horses and bulls also cross; 3) more than 60,000 cars cross northbound each month, and the number of cars crossing southbound is not tracked; 4) in the 12-mile border commercial zone, Mexican trucks unload cargo into American trucks, and all such trucks are subject to inspection; 5) the federal government recently disallowed the crossing of used vehicles at the POE, so now those vehicles cross at Tornillo, Texas; and 6) activity at the Foxconn plant in Mexico is high and growing.

Tax on Mexican trucks crossing into Santa Teresa. The tax on commercial traffic mentioned in the presentation has been in law, but not implemented, for many years. During the recent period in which it was imposed, many complaints about the delays it caused were raised. The DOT then postponed implementation and is examining alternative methods of implementation. It is expected that more on the matter will be known in October.

Comparison between the Santa Teresa POE and El Paso POE. Compared with the El Paso POE, which has a much higher volume of traffic, the wait times for commercial crossings at Santa Teresa are short. The El Paso POE wait times are being studied, as is new technology to reduce them by improving the detection of illicit cargo. A study comparing the two POEs was completed recently and explained at the joint working committee meeting in Phoenix.

Other POEs. Funding from American sources for the implementation of a retail- and industrial-development project in Columbus has been secured. The funding from Mexico toward the project is not yet secured. Otherwise, much of the pre-construction work has been completed, and it is not known when construction will begin. A bypass east of the POE facility was completed about six years ago. Meanwhile, a new state-of-the-art facility at Antelope Wells is in operation and has led to an increase in tourism there.

Other border-related projects. The railroad interconnection project, feasibility for which has been established, is still under negotiation between BNSF Railway, Union Pacific and Ferromex.

A member inquired about the status of a plan to build an additional crossing at Anapra, Mexico, funding for which a benefactor provided and is under state control. Mr. Mattiace stated that the BA supports Sunland Park's efforts to develop a POE at Anapra, but some have suggested that Sunland Park's resources might be better spent developing its road infrastructure to attract more tourists. He added that the project has not been received particularly well by the federal government and that much further study on the project, though it is being pursued, is needed. Mr. Mattiace agreed to provide the committee with a copy of the proposal for the road development. The member expressed the importance of putting such a generous donation to timely and good use.

The BA. The BA: 1) has four employees; 2) undergoes a financial audit each year; 3) has the most frequent contact among other state agencies with the NMFA and the Governor's Office; and 4) participates in monthly meetings with federal and local law enforcement agency personnel to discuss border-related federal actions and other matters.

Changes to the North American Free Trade Agreement (NAFTA). To help avert federal NAFTA-related action detrimental to the border economy, the BIA and other leaders in the area have to make the case, using statistics, that NAFTA is worth preserving. The BA has conveyed material supporting that argument to the Borderplex Alliance, but it has not communicated on the subject with federal policymakers.

A member stressed the importance of communicating that information to New Mexico's and other border states' congressional delegations and to other federal officials.

Border Industrial Initiatives

Jerry Pacheco, executive director, The International Business Accelerator (IBA), and president/CEO, BIA, talked about the border area's economy, including initiatives to expand its economy and its effects on the state, as follows.

Overview of the border-area economy. The economy at New Mexico's border with Mexico is growing. The amount of goods the state exports to Mexico has grown by almost 350% in the past 10 years. New Mexico surpasses all other states in that measure. Predominantly, the export of production inputs, such as transportation equipment, electrical equipment and components and computer and electronic products, is driving that growth. The location of out-of-state companies to New Mexico because of its proximity to the border is promoting that growth.

Santa Teresa features four industrial parks that include air and rail infrastructure, Fortune 500 companies, wind-blades staging, the nation's largest picture-frame manufacturing company,

FedEx Ground, a Valley Cold Storage & Transportation distribution center and major logistics firms. Meanwhile, San Jeronimo, just south of Santa Teresa, is home to the Foxconn maquila, the world's largest maquila. A new customs pre-clearance program is set to begin there soon.

Growth of the border-area economy and opportunities for the state. Because of its geographic position, New Mexico has an advantage over other states in promoting economic growth. That is, the movement of goods from Asia is changing. New Mexico can capitalize on that change by shifting the balance of offloaded cargo away from California and toward Santa Teresa. Santa Teresa's proximity to the Mexican maquila industry — which increasingly is migrating north — and its proximity to Chihuahua, which has a large manufacturing sector and is Mexico's largest exporter, are factors strengthening the potential of that shift.

With relatively little effort, the state can diversify its economy by supporting development at the border. Furthermore, the increase of exports from the region can help make up for the decreases in exports attributable to shrinkage at Intel's New Mexico plant.

Supply the Supplier Program. The IBA is expanding the benefit of sharing a border with Mexico to the rest of the state through its Supply the Supplier Program. The program is designed to increase the level of in-state supply flowing to border region enterprises. The program has already experienced successes that include job creation and retention.

Border-area initiatives. Among other completed and in-progress border area initiatives: 1) lawmakers recently extended the overweight cargo zone from six to 12 miles, a move that helped bring in 12 companies and the more than 600 jobs associated with them; 2) funding is being pursued and secured to improve area roads; and 3) plans for a bi-national community, Los Santos, in Santa Teresa, San Jeronimo, Mexico, and San Jose, Mexico, are under way; the community has a board of directors and a master plan.

Future growth. It is estimated that the border area will experience growth of between 200 and 500 industrial jobs each year in the coming years. That estimate is based on certain assumptions related to federal and state government action. Notably, rhetoric from President Trump has had a chilling effect on development in the area.

Key points. In short: 1) Santa Teresa and New Mexico have a strategic economic advantage because of their geographic positions; 2) Santa Teresa is growing; 3) that growth benefits the entire state; 4) Santa Teresa is growing into more than just an industrial center; it will be a world-class, sustainability-focused city; 5) Chihuahua's economy is thriving, and its robustness will help drive New Mexico's growth; and 6) private-sector entities are working to develop a unique community, Los Santos, whose presence will ultimately benefit the entire state.

Questions and Discussion

Tax on Mexican trucks crossing into Santa Teresa. Mr. Pacheco elaborated on the issues arising from the DOT's recent implementation of a tax on commercial vehicles crossing at

the Santa Teresa POE (discussed during the previous presentation) and on a recommendation for addressing the issues, as follows. Texas also charges such a tax, but that state's implementation of the tax is considerably less problematic. In Texas, permits may be completed, and the tax may be paid, cumulatively. In New Mexico, those functions are handled trip by trip, an approach that is cumbersome, causes delays and results in excessive costs to affected companies. Furthermore, the change is deterring truck traffic from Mexico into New Mexico. To correct the problem, New Mexico should reconcile inconsistencies in the law establishing the tax — as written, the law is ambiguous — and it should harmonize its system of implementation with that of Texas.

Union Pacific capital improvement project. Mr. Pacheco noted that Union Pacific: 1) is engaged in various projects at its Santa Teresa facility; 2) has room for growth there; and 3) will experience growth, which is currently stagnant, as more companies locate to the area.

Development of Santa Teresa. A member recognized Chris Lyons, who was in the audience, as having been instrumental in the development of Santa Teresa for the past 20 years, and the member invited Mr. Lyons to comment on that development. Mr. Lyons responded that: 1) while the area, with the state's support, has developed considerably, it is still marked by vast untapped potential; 2) infrastructure is critical to achieving further success; 3) the area is close to a tipping point — once passed, growth will accelerate; and 4) the location of a very large business to the area would help it reach that tipping point.

Mr. Pacheco added the following related remarks. While Santa Teresa has many advantages over comparable sites in Texas, more investment in the area is still needed. Leaders in the area have actively worked to improve its conditions for development and have achieved certain related successes, such as the state gross receipts tax exemption for trade support companies and the expansion of the overweight zone. Now, leaders are turning their focus to improving the area's infrastructure, including its broadband infrastructure.

Business recruitment; comparison with Texas. A member commented that El Paso remains substantially more developed than Santa Teresa, despite El Paso's comparative disadvantages. Mr. Lyons responded that despite Texas' higher property taxes, New Mexico's personal income tax (PIT) deters Texans from moving there. Mr. Pacheco mentioned an exemption from New Mexico's PIT on the income of Texas residents who work in a 20-mile border zone. Because the law is poorly written, he continued, it is not implemented. He also noted that: 1) the corporate income tax's single sales factor provision helps attract business to the area; 2) workforce availability factors heavily in many businesses' relocation decisions; and 3) Local Economic Development Act (LEDA) incentives factor less heavily into those decisions.

Concerning the variance in rates on electricity delivered by El Paso Electric in Texas and in New Mexico: 1) Mr. Lyons noted that a New Mexico law providing for a differential economic development rate for electricity helps offset some of that disparity and that, in time, solar energy technologies will allow for the reduced dependence on electricity from its current

source; and 2) Mr. Pacheco explained that the law, which has not yet been acted on, allows companies to enter into agreements with El Paso Electric for phased-in discounts on electricity.

Recruitment of companies to border area. Mr. Pacheco cited, as a local repercussion of President Trump's talk of renegotiating NAFTA, two companies' decisions to back out of deals to locate in Santa Teresa: one is a metal fabrication company and the other is an industrial cable company, both from California. He added that the IBA continues its efforts to recruit them. Mr. Pacheco also noted that New Mexico was in contention for the Foxconn plant that ultimately located in Wisconsin and that New Mexico remains positioned to recruit Foxconn to the state.

Suggestions for future action. Asked to suggest legislative measures for encouraging development at the border: 1) Mr. Pacheco proposed focusing on the area's infrastructure, carving a channel to communicate more freely with border-area leaders and revising the commercial vehicles tax statutes; and 2) Mr. Lyons proposed that the state get more involved with Mexican affairs and improve its relationship with Mexico.

Film Production Financing: Former Programs and Initiatives and Emerging Opportunities

Jon Hendry, business agent, IATSE Local 480, and Nick Maniatis, director, New Mexico Film Office, gave an update on state-sponsored programs to encourage in-state film production.

Mr. Hendry summarized the history and current status of film and television in New Mexico as follows. Films have been shot in the state for almost 120 years. New Mexico started a film loan program administered by the State Investment Council (SIC) in 1999. During the Richardson Administration, state-sponsored film programs expanded, and that expansion spurred substantial industry growth. For its size, New Mexico boasts a fairly strong incentive program, though it is less robust than that of Georgia, Kentucky or Louisiana. The program focuses largely on television production, which is associated with longer-term, permanent employment. Film and television productions deliver a sizable economic benefit to the state.

Mr. Hendry further described a proposal for an NMFA-administered revolving loan fund of about \$10 million. Under the proposal, low-budget pictures that shoot in specified rural areas throughout the state, hire New Mexico residents and meet other legislatively set criteria would qualify for a legislatively set, low-interest loan. In return, the state would own a share of the picture. The program would encourage young people to stay in the state and bolster its economy.

Mr. Maniatis drew members' attention to graphs in a handout showing that for the past four fiscal years, there has been steady, significant growth in the amount of expenditures that qualified for the film credit and in the number of projects with a budget of over \$1 million. A table in the handout shows SIC-administered film investment program projects and data associated with them. That program has not been used in recent years, most likely because conventional loans are comparatively more attractive. Meanwhile, a recently enacted law allows for the assignment of film production tax credits.

Questions and Discussion

New Mexicans employed in the industry. Mr. Hendry stated that: 1) according to data compiled from tax return filings, there were close to 15,000 New Mexicans employed in the film and television production industry in the state two years ago; 2) the "Breaking Bad" bill heightened the in-state residency standards applicable to the tax credit; and 3) the number of out-of-state residents employed in the industry is not known, and the secondary economic effects on employment of the industry's activity in the state have not been quantified.

Studio space. Mr. Hendry noted that the owner of a production studio off Interstate 25 in Albuquerque was considering demolishing it and building condominiums in its place. He also said that there is a general shortage of studio space in the state.

Efficacy of incentives. Mr. Hendry explained that the state's incentive program mostly attracts television and film (versus other media) companies to the state and that the program's residency requirements and cap suppress in-state industry activity. Nevertheless, he said, the residency requirements are worthwhile and should remain intact.

Industry activity in the border area. Mr. Hendry indicated that there is a lot of industry interest and activity in the border area, including at the spaceport and in Sunland Park, and that many New Mexico backdrops in that area function as proxies for out-of-state locations, such as Afghanistan and Wyoming.

Proposal for revolving loan fund. Mr. Hendry elaborated on the proposal for an NMFA-administered revolving loan fund, noting that: 1) the program would provide capital at below-market rates and attract filmmakers from out of state; and 2) the loans could be repaid in part with money from the film tax credit and assigned to the NMFA. Mr. Coalter said that the NMFA had not explored the details of the proposal but would be willing to consider the feasibility of its implementation. He added that to implement a program like the one described, the NMFA would have to work with another agency that possesses relevant expertise, receive an appropriation to capitalize the fund and promulgate related rules.

SIC loan program. Mr. Maniatis clarified that the figures in the handout relating to the SIC loan program represent direct spending in the state. A member expressed an interest in knowing the secondary economic effects, or the multiplier, of that spending. Mr. Hendry explained that the program's dormancy was due in part to the SIC's inability to reduce its loan rates, an inability that the SIC has said is tied to its duty to seek a minimum return on SIC investments. He reiterated that the proposal is for a new, separate fund.

Request for recommendations. Representative McCamley requested that Mr. Hendry, Mr. Maniatis and Mr. Coalter discuss the proposal and return to the committee with a set of options and recommendations for its realization.

Recess

The committee recessed at 2:52 p.m.

Wednesday, September 20

The committee reconvened at 9:03 a.m. on Wednesday, September 20, with Representative McCamley chairing the meeting.

Welcome

Garrey Carruthers, chancellor and president, New Mexico State University (NMSU), welcomed the committee to NMSU and expressed appreciation for the legislature's efforts to ensure funding in the fiscal year for higher education. He gave an update on NMSU as follows. Since he began as chancellor, \$38 million has been cut from the university's budget. Nevertheless, the school has made progress in that time. For instance, many improvements have been made to the main campus, the university has raised its enrollment standards and it has begun a concerted effort to recruit students from surrounding areas, including El Paso and Arizona. Those efforts have helped increase freshman enrollment. To manage the consequences of the rise in enrollment standards, the university developed a program, now growing, that allows non-qualifying applicants to begin college at one of four community colleges and then transfer to the university when they qualify. Lastly, the university has also worked to improve its distance-learning programs.

Questions and Discussion

Chancellor Carruthers elaborated on his presentation as follows.

Budget. The recent higher education appropriation vetoes sent a negative message and created much undue burden for administrators. Were the situation not resolved, the state's universities would have had to cease operations for the fall semester.

Future challenges. In the next five to 10 years, the state's higher education institutions will face challenges that include the need to develop an internationally competitive workforce and to prepare students for technical careers in companies like those whose location to New Mexico would be beneficial. New Mexico's border area's workforce needs to be at least as good as that of Texas; two-year colleges can play a key role in that workforce development.

Branch campuses. To maintain their viability, NMSU's branch campuses must identify the types of education needed in their local economies and tailor their course offerings accordingly.

Graduate demographics. NMSU tracks outcomes among its graduates, partly through data collected by the Workforce Solutions Department and the university's alumni association. Studies show that NMSU ranks high in a measure of its graduates' mid-term career earnings.

Virgin Galactic Update and Outlook

Jonathan Firth, executive vice president, Spaceport and Program Development, Virgin Galactic, gave an update on Virgin Galactic and its activity at the spaceport as follows. Since the company last reported to the committee, there have been significant developments in, and economic impact from, its activity. Specifically, the company has divided itself into: 1) Virgin Galactic, which is based in New Mexico; and 2) Virgin Orbit, which is based in Long Beach, California. While they both endeavor to provide low-cost, reliable service, each has its own management team, and the offerings of each are unique. Despite having to face many competitors in the space market, Virgin Galactic believes it is on a path to success.

Concerning Virgin Galactic's activity in New Mexico, the company is moving forward. Its relationship with the Spaceport Authority has improved significantly over the past year. Among other spaceport-based activities, the company is preparing to fly more than 600 people from more than 50 nations who are signed up to take flights. The original time line for space flight was interrupted because of a test-flight accident that occurred three years ago, and the company has been working on recovering from the setback and is implementing changes to make planned space trips safer and more reliable. Once testing is complete and Virgin Galactic is assured that the system is safe (approximately one year from now), commercial operations will begin — with Sir Richard Branson, Virgin Galactic's founder, a passenger on the first flight. The flights will give passengers an opportunity to view earth from space and experience weightlessness.

Virgin Galactic's investments and activity have created jobs in and brought revenue to New Mexico. Many of the company's employees live full time in Las Cruces, and many others visit the state frequently on business. Once flights begin, many Virgin Galactic employees will move to New Mexico from Mojave, California. More New Mexico residents will be hired, and economic activity associated with the flights will ramp up. In other ways, the company has helped New Mexico and its economy. It has signed a 20-year lease at the spaceport, paid more than \$7.6 million in rent and fees to the state, patronized many local suppliers, sponsored events at the spaceport and helped enrich the education of local students.

Questions and Discussion

Aircraft testing. Mr. Firth indicated that the design and testing of the vehicles that will launch from the spaceport are conducted in Mojave but that Virgin Galactic is interested in future development and testing of other vehicles in New Mexico.

Virgin Galactic's lease and its continued presence in New Mexico. Mr. Firth clarified that: 1) Virgin Galactic entered into a 20-year lease with the Spaceport Authority five years ago; 2) that lease agreement, which is public, is based on the premise that the company will remain in the state for at least the duration of the lease term; 3) were the company to break the lease, it would face a penalty; 4) the company is not contemplating breaking the lease; and 5) the lease payment rate of \$1 million per year increases at the end of the fifth year, or next January.

Southern road to spaceport. Mr. Firth articulated his understanding of the status of the plan to construct a southern road to the spaceport. Some members expressed concern about the plan for that construction — namely, whether the planned road will be durable enough to withstand the effects of extreme weather events and the weight of some payload freight.

Competition in space tourism market. Responding to a member's concern about the potential effects to the state of the increasing competition in space market tourism, Mr. Firth highlighted some of Virgin Galactic's major competitors and their locations. He noted the differences between those competitors' and Virgin Galactic's planned and existing offerings and also noted the prospect of future consolidation within the industry. Mr. Firth also highlighted New Mexico's spaceport's advantages: air space, weather and altitude.

Transparency. Commenting on recent commentary in the media that certain matters related to Virgin Galactic that are affecting the state are improperly kept from disclosure, Mr. Firth stated that by virtue of operating in a competitive domain, the company's proprietary information must be kept confidential. A member remarked that the issue primarily concerns the Spaceport Authority, not Virgin Galactic.

Increasing presence in New Mexico; economic and other benefits of that presence. Mr. Firth elaborated on Virgin Galactic's plans for stepping up its presence in the state in preparation for the start of commercial flights. He said that the company is actively planning the transition of staff to the state, which will involve the relocation of some staff members at the beginning of 2018 and then more when the flight test system is ready to move.

Mr. Firth elaborated on Virgin Galactic's other benefits to the state. He cited the spaceport's having been constructed using local contractors and the expectation that the flights will attract much tourism — both by Virgin Galactic customers and by those who accompany them. Mr. Firth also outlined some of the company's science education and professional development endeavors: video chats with middle school students in Las Cruces; work with the universities; a seminar series; and an intern program.

Commendation. Several members expressed appreciation for Virgin Galactic's presence and activity in the state and expressed hope that the decision of the state to pursue the spaceport endeavor will ultimately prove sound.

Spaceport Authority Update and Outlook

Zack De Gregorio, chief financial officer, Spaceport Authority, gave a brief update on the Spaceport Authority's finances as follows. The Spaceport Authority, whose funding comes from several revenue sources, is creating new jobs every year and is deriving revenue from an industry that continues to grow. Some of those sources are the General Fund, grants and, critically, local taxes. Given that its budget is tight, the authority will request an increase in its General Fund appropriation for the upcoming fiscal year.

Questions and Discussion

Revenue for operations. Responding to a question about an issue that surfaced recently in the media regarding the use of certain revenue for operations, Mr. De Gregorio stated that the Spaceport Authority, the NMFA and the spaceport tax district board carefully considered and, in public forums, made the decision on the use of that revenue.

Transparency. Concerning the issue of transparency discussed during the previous presentation, a member requested that the Spaceport Authority strive both to protect confidentiality, when appropriate, and avoid violating the state's laws on the public's access to government information. Mr. De Gregorio responded that there are many areas of ambiguity concerning the classifications of public and private information, that the authority is taking the issue seriously and that it is working with the attorney general toward a resolution of the matter.

Southern road. Mr. De Gregorio gave an update on the southern road, discussed in the previous presentation, as follows. It appears that the project is moving forward and will be successful. Dona Ana County has issued a request for proposals, and the response to that request should be known soon. The recent drop in oil prices is favorable to the state in that it will spur more bidders and more competitive bids. Money for the road's construction has been earmarked, and it is expected that construction will begin in November. Originally, it was estimated that the construction would last about a year; however, an incentive clause that would accelerate the originally contemplated completion was added to the request for proposals.

Economic Development Department (EDD) — LEDA and Catalyst Fund Update

Juan Torres, finance development director, EDD, Julia Wise, director, Office of Science and Technology, EDD, and Brian Birk, managing partner, Sun Mountain Capital, discussed some of the state's efforts to encourage entrepreneurial and business development pursuits in the state.

LEDA capital outlay fund; State Small Business Credit Initiative (SSBCI). Mr. Torres described the EDD's efforts, through the LEDA capital outlay fund and the federal SSBCI, to create jobs, increase the tax base and provide incentives for business development, as follows. The EDD's finance development team administers the LEDA capital outlay fund, which is used to recruit, expand and relocate businesses. It also helps to administer the SSBCI, which supports the financing of certain small businesses. With money from the initiative, New Mexico implemented a collateral support program, which the NMFA administered from 2012 through 2016. In recent years, the EDD has explored better uses of the earmarked federal money, and the EDD's proposal recently won approval from the U.S. Department of the Treasury. Consequently, \$5 million of the original \$13.2 million allocation has been dedicated to the Catalyst Fund, a fund-of-funds investment vehicle. The balance of money will be used for the Small Business Innovation Research (SBIR) matching grant program and for a credit enhancement program similar to, but simpler than, the collateral support program. As collateral support program loans are repaid, more money will be returned from the NMFA to the EDD.

SBIR program. Ms. Wise described the SBIR program as follows. Its purpose is to accelerate the commercialization of New Mexico ideas and technologies by easing the process for taking innovations to market. The grants, awarded competitively, help small businesses engaged in the research and development of high-potential, commercializable technologies. The program provides the opportunity to partner with the federal government and leverage federal funding. Through it, the EDD is also working with NMSU's FAST grant program.

Catalyst Fund. Mr. Birk elaborated on the Catalyst Fund as follows. The fund was launched in 2016 to address the lack of seed and early-stage investment funding in the state. Its managers are pursuing the goal of committing money from the Catalyst Fund to between six and eight funds. Public and private entities have invested in the Catalyst Fund. It has received \$5 million from the federal government (i.e., the portion redirected recently by the EDD); \$10 million from the SIC through its private equity investment program; and \$5 million from large private institutional investors. The capital multiplier goal is to get 100% of the Catalyst Fund commitment in matching capital, which, when reached, will yield \$40 million. Investment commitments have already been made, and more funds are being considered and evaluated. Through those commitments, two companies have been funded.

Questions and Discussion

Preparation for technology-related careers. Concerning the topic of workforce training and business needs: 1) a member commented on the existing disparity between those two; 2) Ms. Wise expressed her belief that creating a stronger business environment would encourage companies to locate to, and stay in, the state; 3) a member stressed the importance of preparing students, beginning at a relatively early age, for careers in technical fields and areas in which there will be workforce demands; 4) the member requested that the EDD collaborate with the Higher Education Department and the Public Education Department to cultivate a program focused on such preparation; 5) Mr. Birk stated that he has observed highly trained workers emerging from the state's universities and deficiencies in workforce training; and 6) Mr. Birk added that, if companies benefiting from the Catalyst Fund cannot find a workforce with the skills the companies need, the companies will be more likely to leave the state.

SBIR program. Ms. Wise elaborated on the SBIR program with the following statements: 1) she is the only employee in the Office of Science and Technology; 2) the program is developing, and members of the technology research community are joining in the collaboration toward that development, both organically and through direct outreach; 3) the program was created by statute; 4) no secondary school district has yet been involved in the program, but some districts have engaged in other project-based, technology education programming; 5) grants through the program, which are capped and require a match, may not be used for research but may be used for prototype development, sales and marketing; 6) in applying for a grant, a company must outline certain milestones and report on its progress toward reaching them, and grant money is released in tranches; and 7) grant awards are tied to clawback provisions, including certain requirements for in-state retention.

SSBCI program. Mr. Torres elaborated on the SSBCI program with the following statements: 1) of the original \$13 million allocated by the federal government to New Mexico for the program, the NMFA collected about \$900,000 in program income and administrative overhead; 2) loans under the collateral support program were executed under NMFA policies and have been repaid on schedule; 3) the EDD is responsible for developing the SSBCI program in the state; 4) part of the impetus for re-purposing the federal allocation was, and the SSBCI program goal is, to improve on the collateral support program's spending-to-job-creation ratio; and 5) when exploring ways to re-purpose that money, the EDD looked at other states' uses of SSBCI money, at best program practices and at New Mexico's needs.

Catalyst Fund. Concerning the Catalyst Fund program, Mr. Birk noted that: 1) goals related to the number of companies and full-time jobs created, tax revenue generated and other program outcomes have been established; 2) quarterly program reports are submitted to the federal government; and 3) future reports will include measures of the aggregate salaries of the jobs created through the program.

EDD-Sun Mountain Capital collaboration. Mr. Birk indicated that Sun Mountain Capital's headquarters in Santa Fe is near the EDD office, and representatives of those entities meet frequently to discuss Catalyst Fund investments and prospects.

Business Incubators, Accelerators and Venture Capital in New Mexico

Kathryn Hansen, director and CEO, Arrowhead Center, NMSU, Estela Hernandez, enterprise advisor, Arrowhead Center, NMSU, Peter Anselmo, executive director, Center for Leadership in Technology Commercialization, New Mexico Institute of Mining and Technology (NM Tech), and Tom Stephenson, managing general partner, Verge Fund, discussed their respective organizations' efforts to promote entrepreneurship and business development.

Arrowhead Center. Ms. Hansen and Ms. Hernandez spoke about the Arrowhead Center's efforts to commercialize technology and help small businesses start and grow as follows. Working with a wide range of people in education, government and the private sector, the center promotes entrepreneurship and innovation. NMSU alumni constitute an especially critical pool of people who help promote the center's innovation mission.

The center's incubation efforts consist of several distinct program areas, namely: courses and workshops; the provision of co-working space; a competition; accelerators; incubators; and a seed fund. Its accelerator program, in turn, consists of: 1) Launch, a five-month technology commercialization accelerator; 2) NSF I-Corps, which gives grants for moving National Science Foundation-related technologies to market; and 3) "sprints" (including TechSprint, BizSprint and AgSprint), which offer mentorship, coaching and financial support. Meanwhile, the center's incubators consist of: 1) Studio G, geared toward students and alumni in a wide range of business types; 2) the Arrowhead Technology Incubator, geared toward businesses in water, energy, agriculture and health information technologies; and 3) Arrowhead Ventures, which provides resources for graduates of accelerator programs.

A wide range of sources — governments, private investors and donors and laboratories — contribute funding to promote the center's mission. Notably, the Catalyst Fund (along with the NMSU Foundation) have invested in the newly launched Arrowhead Innovation Fund, money from which will be used to invest in pre-seed- and seed-stage companies' commercialization of NMSU-based innovations.

The center tracks many metrics applicable to its programs. For some, outputs, i.e., activity levels, are measured; for others, outcomes are measured. A report of the center's programs' impacts — including in job and business creation — will be issued soon.

Center for Leadership in Technology Commercialization. As follows, Mr. Anselmo talked about NM Tech's efforts to: 1) bring money to the university through technology commercialization; 2) develop and implement a structure for the university community to monetize its ideas; and 3) support university-wide entrepreneurship. To those ends, the university is: 1) encouraging students — through its classes, its policies, a workshop and an annual competition — to innovate and develop intellectual property (IP); 2) engaging faculty and staff in its commercialization efforts; 3) incubating new companies that license NM Tech technologies; 4) collaborating with the Arrowhead Center on an internal pre-seed technology fund; and 5) marketing NM Tech-developed technologies through workshops and showcases.

The center measures its performance to the extent that it can, given its relative newness. When it is more mature, it will look at the financial inflows deriving from its commercialization efforts. For now, however, the center's focus is on the numbers of its contacts; audiences with potential investors and partners; and quality IP disclosures.

Verge Fund. Mr. Stephenson stressed the importance of investing locally (for its positive effects on the economy and society), and he continued as follows.

Raising the level of capital available to local entrepreneurs — that is, helping fund companies from their early stages through maturity — would encourage the likelihood that they remain in the state. New Mexico lacks adequate access to that full spectrum of funding. Though the state operates some early-stage investment programs, such as the SIC's contribution to the Catalyst Fund and the angel investment tax credit program, the need for more sources of capital to fill out the spectrum persists.

Many venture-capital-backed companies have become highly successful and have gone on to contribute trillions of dollars to the U.S. economy and produce millions of jobs. New Mexico has a growing number of venture-capital-backed companies, including one called IntelliCyt Corporation, a tech company that started at University of New Mexico and sold recently for \$90 million. The company received local funding for stages A and B, but not for C and D, so much of that \$90 million went out of state. Had those gaps been met, more wealth would have stayed in New Mexico.

To improve access to venture capital and retain more businesses in New Mexico, the state should: 1) expand the angel investment tax credit by increasing the cap and making the credit available to out-of-state investors; 2) exempt from the state's capital gains tax the sale of New Mexico businesses; and 3) increase the state's institutional investments in New Mexico-based companies.

Questions and Discussion

Arrowhead Innovation Fund. Ms. Hernandez clarified that investments of capital from the Arrowhead Innovation Fund are neither loans nor grants but, rather, exchanges for ownership in companies.

University collaboration and reporting. A member commended the presenters from the two universities for their efforts to collaborate toward strengthening the innovation, entrepreneurship and business development in the state and underscored the importance of actively documenting the numbers of jobs created by those efforts, sharing those reports and taking steps to improve program inefficiency.

Recommendation for a capital gains tax exemption. As follows, Mr. Stephenson elaborated on his proposal for a capital gains exemption. Under it, an entrepreneur whose employees own a share in the company started by the entrepreneur would not pay state income tax on the proceeds from the sale of that company. On its face, the proposal carries a negative fiscal impact, but when considered thoroughly, the impact might be more moderate in that it could deter companies from leaving the state. That is, the proposed measure would negate the incentive for a company to avoid the tax implications of an in-state sale by moving just before the sale to a state that does not tax capital gains. In the case of such a company that moves out of state, the proposal is revenue neutral because New Mexico would not otherwise have received any tax on the capital gains.

Enacting this exemption would send the message that New Mexico values startups and entrepreneurs. It would also help fight the perception within the business community that the state's taxes are high.

A member remarked that evidence is lacking of the current capital gains deduction's efficacy and recommended that lawmakers change the approach to capital gains taxation by increasing the provision's value to the state.

Minutes

The committee approved the minutes from the August meeting without objection.

Adjournment

There being no further business before the committee, the committee adjourned at 12:43 p.m.