

**MINUTES
of the
THIRD MEETING
of the
JOBS COUNCIL**

**August 19, 2016
Barbara Hubbard Room
New Mexico State University (NMSU)
Las Cruces**

The third meeting of the Jobs Council (council) was called to order by Senator Mary Kay Papan, co-chair, at 9:24 a.m. on August 19, 2016 in the Barbara Hubbard Room at NMSU in Las Cruces.

Present

Sen. Mary Kay Papan, Co-Chair
Rep. Don L. Tripp, Co-Chair
Dale Armstrong
Scott Bannister
Terry Brunner
Sen. Pete Campos
Terri L. Cole
Jason Espinoza
Rep. Roberto "Bobby" J. Gonzales
Sen. Michael Padilla
Alex O. Romero

Absent

Vicente Alvarado
William F. Fulginiti
Justin Greene
Sen. Stuart Ingle
Steven Kopelman
Rep. Tim D. Lewis
Rep. Sarah Maestas Barnes
Sherman McCorkle
Sen. George K. Munoz
Sen. John C. Ryan
Sen. Michael S. Sanchez
Eric Witt
Sen. Pat Woods

Advisory Members

Rep. Alonzo Baldonado
Sen. William F. Burt
Sen. Carlos R. Cisneros*
Rep. Kelly K. Fajardo
Rep. Bealquin Bill Gomez
Rep. Yvette Herrell*
Rep. Conrad James
Rep. Larry A. Larrañaga
Rep. Bill McCamley
Rep. Debbie A. Rodella
Sen. William P. Soules

Rep. David E. Adkins
Rep. Cathrynn N. Brown
Rep. Stephanie Garcia Richard
Sen. Howie C. Morales
Sen. Steven P. Neville
Rep. Patricia Roybal Caballero
Rep. Monica Youngblood

* designated as a voting member for this meeting

Staff

Tessa Ryan, Staff Attorney, Legislative Council Service (LCS)

Jeff Eaton, Fiscal Analyst, LCS

Mark Edwards, Drafter, LCS

D **Guests**

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Friday, August 19

Welcome

Garrey Carruthers, chancellor and president, NMSU, welcomed the council to campus. He then provided a brief overview of the following major changes at NMSU.

Enrollment. Chancellor Carruthers said that NMSU has recently increased its admissions standards despite declining enrollment trends. He also noted that retention of students is an ongoing challenge. To address these issues, NMSU has created a "Pathway to Baccalaureate" program with Dona Ana Community College. The concept is to give students smaller class sizes and tutors for their entry-level courses. Three hundred students are expected to participate in the program this year, and NMSU has set a goal of 500 participants by next year. As the program becomes established, NMSU plans to expand it to other community colleges.

Restructuring. Chancellor Carruthers said that NMSU has been conducting an internal review of: office supply spending patterns; the potential for integrating information technology and travel expense systems across departments; and the ratio of support staff to program staff. He reported that \$2 million in savings has been realized so far through these efforts and that a report on spending analysis would be ready by mid-December. He projected that it would take one to two years to fully implement the structural changes identified by this review.

Aggie Uptown. Taking advantage of statutory authority enacted in 1998, Chancellor Carruthers said that NMSU has set up a development enterprise called the Aggie Development Corporation (ADC) to lease 2,000 acres of open land owned by NMSU for commercial use. He said the plan for Aggie Uptown includes: a 120-room Courtyard Marriott hotel west of campus; "continuum of care" assisted-living housing; nutrition centers; and an environmental center. He said that the ADC is also evaluating the potential for a winery and craft brewery facility that would be used to expand the NMSU curriculum.

Responding to a question from a council member, Chancellor Carruthers said that NMSU is working with the New Mexico Institute of Mining and Technology and Purdue University on a joint bid to contract for the management of Sandia National Laboratories. He noted that

approximately 600 NMSU graduates work at Sandia, which is an indication of the quality of the university's engineering and science programs.

Report on Updated Regional Job-Creation Data

Southeast Region (Chaves, Eddy, Lea, Lincoln and Otero Counties)

Mark Roper, former southeastern regional representative, Economic Development Department (EDD), stated that the southeast region had projected an overall need for 29,280 new economic-base jobs over 10 years, but the revised projections indicate that job creation will be more in line with the expected population. He said that a key factor in the revised projections is the inclusion of population attrition due to the recurring boom-bust cycle of the oil industry.

Mr. Roper said that the job market in the southeast region is greatly dependent on energy production. He said that with oil prices down, the largest potential for growth in that sector is in solar energy generation. However, he said, looking in the long term, the New Mexico side of the Permian Basin has not been as heavily drilled as the Texas side, so it has a longer projected production life. He also said that New Mexico is now very competitive with Texas for oil management and service businesses, so it should be able to attract these sorts of jobs once oil prices stabilize. He then said that the region needs to reexamine the potential growth in other "program theaters", or sectors, to stabilize the job market in light of market cycles within the oil industry.

Mr. Roper then briefly reviewed the outlook for four other sectors within the southeast region: the federal government; tourism; retirement services; and the film industry. He said that federal employment is projected to remain a significant job producer, with some growth. He noted that there is some growth potential for tourism in part because, as the number of oil industry workers has diminished, hotel space has opened up and costs have stabilized for visitors to Carlsbad Caverns. He noted that part of the changed figures for jobs needed are due to including retirement services into the "base jobs" figure. Finally, he said, the region has many locations that could be marketed for film productions.

The council then entered into a general discussion on the energy sector and job creation. Mr. Roper estimated that if oil prices rise to \$50.00 per barrel, the industry would stabilize, but the price would need to reach about \$60.00 per barrel to create steady growth. He noted that at current prices, Eddy County is still producing oil, but the industry cannot afford new drilling. He also noted that if prices reach \$80.00 per barrel, more inefficient production locations around the country will start competing in the market.

Mr. Roper said that, in preparation for the anticipated special and regular legislative sessions, he would help create a talking points memorandum on the importance of the oil, gas and coal industries to New Mexico's job market and economy.

Southwest Region (Catron, Grant, Hidalgo and Luna Counties)

Priscilla Lucero, executive director, Southwest New Mexico Council of Governments (SWNMCOG), and Emily Schilling, economic development planner, SWNMCOG, presented updated job-market data for the southwest region. The projected need for new economic-base jobs has been lowered from 4,100 to 3,900. Most of this change is due to the size of the projected employable workforce. Ms. Schilling said that two new anticipated business ventures, a racino and a magnesium mine, had fallen through.

Ms. Lucero stated that the four counties in the southwest region are also four of the five counties experiencing the highest unemployment rates in the state. She said that these counties have entered into a memorandum of agreement to work cooperatively on the employment problem. She said that a potential increase in trade at the port of entry at Columbus could benefit the entire region. Additionally, she noted that: Luna County's job market may benefit from a longer operating season for food processing centers; the industry is tied to agricultural produce and has traditionally operated from four to five months per year; agriculture is experiencing a longer growing season; and, along with increased agricultural imports from Mexico, food processing facilities are now operating between six and eight months a year.

South Central Region (Dona Ana, Sierra and Socorro Counties)

Christine Logan, south central and southwest regional representative, EDD, and Eric Montgomery, vice president, Mesilla Valley Development Alliance, gave the presentation. Ms. Logan noted that data-gathering challenges are very different among the counties in this region. She said that the current data sets for Socorro and Sierra counties are very limited, but area representatives are working with the U.S. Department of Agriculture's Stronger Economies Together program to develop better statistics, an effort that will take a few months.

Mr. Montgomery said that the original estimate of new jobs needed in Dona Ana County had been developed in 2014; that estimate was based on a projection of population growth that was too high by 5,000. In Dona Ana County, he said, not much is happening in the energy sector, and the number of federal jobs is in moderate decline. However, the commercial e-base job market is growing at a steady rate of 450 new jobs annually, he said. Turning to small business growth, Mr. Montgomery said that the business incubator at NMSU's Arrowhead Center has been helpful to solo-work businesses that wish to add a couple of employees. A council member noted that when these companies decide to grow by 10 or more employees, they sometimes move out of state.

Looking at two other job-creation theaters, Mr. Montgomery said that the county is reporting no jobs for the retirement theater because the group has not yet found a way to collect the job figures for it. Finally, he noted that the former Tyson Foods processing plant is empty, and the potential is there for a large addition of jobs if a new company can be recruited to use it.

Talking about the overall progress of the council's efforts, Paul Hamrick, program consultant, said that the numbers in the graph showing the e-base jobs potential for New Mexico

had been updated to include the new numbers (see CELab handout). However, the graph will need to be updated again when the mid-region and northwest regions present their revised projections. Ms. Lucero noted that the council's data-gathering process has helped the various councils of governments to meet federal grant requirements to produce jobs numbers.

Minutes

On a motion made and seconded, the minutes from the July meeting were approved without objection.

Roundtable Discussion: Job-Creation Sectors/Theaters — Selecting Priorities for Action

The council divided into working groups. Mark Lautman, lead program consultant, and director, Lautman Economic Architecture, pointed out that the charts in the handouts showed the size of each employment sector but not the sector's capacity to grow. He asked the groups, while recognizing that rural communities and urban communities have different strengths for each sector, to rank the sectors based on two factors: 1) the capacity for growth in each; and 2) the influence that state and local governments have to stimulate growth in each.

Working Group Reports. Charles Lehman, program consultant, and director, Employment and Economic Information Center of New Mexico, reported that his group had decided that five sectors should be given attention for action. He then briefly outlined the governmental influence for those sectors as follows: 1) employer sector — increase councils of governments staff for recruitment and marketing; develop robust workforce education and training programs; and expand broadband access; 2) federal government sector: improve state and local agency coordination with federal military and civilian agencies; work with the state's congressional delegation to identify and access federal loan and grant programs; and market the state's national parks and forests; 3) energy and extractive minerals sector: simplify or reduce the regulation environment; extend the solar tax credit; and educate the public and policymakers on the effect of the sector on the state's job market and economy; and 4) visitor and retiree sectors: increase advertising tied to the "New Mexico True" campaign; and increase broadband access.

Mr. Hamrick noted that solo employers and solar energy production had been identified as the best sector opportunities for growth in rural areas.

Reporting for his working group, Senator Padilla said it had ranked the federal government, visitor and solo employers as, in that order, the top-three sectors for rural communities. Further, he added, the group had identified limited broadband access as the key obstacle to growing rural job markets. For urban communities, he said, the ranking order for the top-three sectors was the federal government, solo employers and visitor.

Representative Larrañaga reported that his group decided that every program sector is important, but that the smaller sectors typically have larger impacts in rural areas. He said that the group identified as options for influencing job creation: 1) raising the film tax credit cap; 2) increasing marketing for the visitor sector; and 3) reforming state regulation, particularly of the

state's workers' compensation and unemployment insurance requirements. He said the group also saw the need for the state to look at ways to stabilize the volatility within the energy sector.

In the ensuing general discussion, participants: 1) commented that the state needs to be more proactive instead of reactive with regard to the federal government sector; 2) questioned whether current state action is actually reducing the energy sector's ability to perform well; and 3) questioned whether the council could formally take the position that water-injection fracturing is a benign method of oil extraction.

Mr. Lautman then summarized the council's ongoing investigation into the various employment sectors. He noted that the council has identified nine program theaters in which investments could be made or regulations could be changed. He said four of those sectors have well-organized state programs and agencies: 1) employer; 2) visitor; 3) film; and 4) to a degree, business start-ups.

Briefly reviewing other employment sectors, Mr. Lautman made the following remarks: 1) the federal government sector has the highest job-creation potential, but no one agency is dedicated to coordinating the state's efforts at exploiting that potential; 2) program efforts for creating more energy-related jobs are at the county level; and 3) neither the retirement nor the agriculture sector features a government program dedicated to expanding jobs in the sector.

Mr. Lautman cited the available qualified workforce as the number-one challenge to business growth in New Mexico and in competing states. He said an effective business recruitment tool would be the state universities' demonstration of an ability to provide a reliable pipeline of qualified employees.

Representative Tripp concluded the discussion by saying that the council's final meeting in October should be used to identify items that need funding and other factor-of-production gaps that require resolution.

The Burrell College of Osteopathic Medicine: Spotlight on a Public-Private Partnership

George Mychaskiw, D.O., dean of the Burrell College of Osteopathic Medicine, and Kevin Boberg, vice president for economic development, NMSU, gave a presentation on the establishment of a medical school on the NMSU campus.

Dr. Boberg said that the job market in the health care field is growing and will continue to grow. He also estimated that, for every new practicing physician, nine additional jobs are created. To capture the job-creation potential of this field, Dr. Boberg said that New Mexico should consider two horizons: the near term to immediate term, in which the state should explore ways to fill the needs in the health care market over the next one to five years; and the long term, in which the state needs to build an educational pipeline for health care that starts in elementary school and continues through college and graduate school.

A potential near-term strategy for New Mexico, Dr. Boberg said, is to tie into the established medical devices industry in neighboring Chihuahua, Mexico. He said the business accelerator at NMSU is poised to help establish the commercial partnerships that New Mexico needs to pursue the strategy.

Report from the Jobs Council Subcommittee

D Jerry Pacheco, president, Border Industrial Association, and executive director, International Business Accelerator, summarized the presentations made to the Jobs Council Subcommittee on the developments in Santa Teresa and on the cross-border growth between the states of Chihuahua, Mexico, and New Mexico.

Mr. Pacheco said that in 2014, New Mexico's exports to Mexico rose 94%, the largest increase in the country. He said that most of the state's exports are "meat and potatoes" exports, such as parts, wire and injection components that are later incorporated into finished products in Mexico. He emphasized that New Mexico is no longer a "pass-through" location exporting items made elsewhere. Seventy-five percent of the jobs in New Mexico created by the export market derive from in-state manufacturing.

Mr. Pacheco reported that 45% of New Mexico's exports originate in Santa Teresa and that Santa Teresa's combined exports now exceed the exports from Intel's in-state manufacturing. He said the key factors stimulating growth in Santa Teresa are its: location; lower tax and land costs compared with competing areas; and active marketing to recruit businesses. He said that much of New Mexico's \$3.8 billion-per-year export industry supplies the \$45 billion manufacturing industry in Chihuahua. He then compared the economic success in Santa Teresa to that which would result from recruiting a Fortune 500 company to New Mexico.

Mr. Pacheco identified two pursuits that are "low-hanging fruit" for further economic growth in the border area. First, Santa Teresa is positioned to be, and is developing as, a key alternative distribution point for goods entering the United States from Asia and Mexico. This is because of the development of the Union Pacific intermodal yard on its Sunset rail line from Long Beach, California, to Houston, Texas; and because of Mexico's development of transportation corridors from its ports to the land port of entry at the San Jeronimo, Mexico-Santa Teresa border crossing. As companies reroute their shipments to avoid the logistics bottleneck at Long Beach, it will be advantageous for them to locate some of their import management facilities (such as warehousing, product modification and distribution) in Santa Teresa. The "Inland Empire" (the import management center connected to Long Beach) contains around 1.8 billion square feet of commercial space. Mr. Pacheco speculated that if New Mexico were to develop an import management center equaling a small percentage of the size of the Inland Empire, the state would realize billions of dollars in economic growth.

Mr. Pacheco said that the second target for growth is developing a supplier sector for Chihuahua's manufacturing companies. He said that, while Chihuahuan companies are exporting many finished products, they do not have their own supplier base. He saw this market as having

two connected effects for New Mexico. First, the companies in Santa Teresa are already supplying components to Chihuahua, and companies elsewhere in the state should have an advantage in supplying this component industry. Second, these New Mexico companies should then be able to use their contacts with the Santa Teresa-based industry as an entryway for direct supply into the Chihuahuan market. He said he is now marketing this concept to potential suppliers around the state and to the established industry in Santa Teresa. His initial goal is to create three supplier contracts within the next three months, though he has not started planning for aggregate statewide goals for the long term.

Asked about the potential for recruiting U.S. companies to relocate their Asian facilities to New Mexico, Mr. Pacheco cited plastic injection companies as a potential industry for recruitment. He said that, as this industry becomes less labor-intensive, the advantage of providing local content to meet demands for a "Buy America" program is starting to outweigh the cost-of-labor advantage enjoyed by maintaining facilities in Asia.

Mr. Pacheco said that, each year, there are 200 to 500 new industrial jobs in Santa Teresa. To meet the initial housing needs for that workforce, 2,000 lots are being developed for residential homes. Additionally, he said, a master plan has been developed for 70,000 acres of land straddling the border to create a binational community to support the industry in Santa Teresa and in San Jeronimo and San Jose del Sol, Mexico. This master-planned development has been named Los Santos.

Mr. Pacheco then outlined a number of actions the state could take to promote economic growth tied to the land port of entry at Santa Teresa.

He said his "bang for the buck" short-term wish list includes: 1) \$50,000 in funding to market the "Supply the Suppliers" program; 2) state funding to meet the \$1 million cost of expanding hours at the Santa Teresa land port of entry, which is expected to be a one-year "proof of need" cost that the federal government would likely pay for in future years and for which the Dell Computer company has already committed \$250,000 of the \$1 million needed; and 3) \$400,000 in annual funding to expand the International Business Accelerator program.

Mr. Pacheco said that medium- to long-term needs at Santa Teresa include: 1) an expansion, estimated to cost between \$22 million and \$31 million, of the local airport to accommodate cargo transport; and 2) development of a new rail center to the west of Santa Teresa.

Mr. Pacheco said that one way to keep strategic planning and infrastructure construction ahead of the growing demand for infrastructure is by creating a tax infrastructure development district (TIDD).

Responding to questions about general barriers to production that the state might address, Mr. Pacheco identified big issues and gave background on them as follows.

Employees. The workforce quality is not up to par. Training is needed in basic math and language skills, and a work ethic culture needs to be fostered. A second issue is the size of the workforce in New Mexico. Incentive programs based on in-state hires are difficult because one-half of the regional labor force currently lives in El Paso.

D *Broadband access.* The backbone for a broadband system is in place, but constructing the "last mile" consumer connection is expensive, and the existing network is often not reliable. As Los Santos is developed, fiber-optic tubing is being installed along every new road for future use.

R *Regulations and permitting.* New businesses can get caught in a tangle because permits are needed in a certain order. Greater coordination between permitting agencies as new businesses start-up would help prevent last-minute surprises. Additionally, the state tax incentive system is confusing and requires multiple forms. Standardizing the process would be helpful.

Expanding on the idea of creating a TIDD, Mr. Pacheco said that the idea has local support. An alternative would be to form a local district to dedicate all of the gross receipts taxes (GRTs) from the area's road construction to other local infrastructure projects. He said that he had only about one-half of the data collected on the revenue effects to the General Fund of creating such a district. He said it was time-consuming to compare projected GRT losses with projected job growth and increased property values.

A Mr. Pacheco was asked what common questions he hears from the companies he recruits to Santa Teresa and whether right to work is a significant issue for them. He said he sometimes receives questions about the state's right-to-work status, but he indicated that it is not as big a consideration as other factors since New Mexico is not a strong union state. He said the two issues of greatest concern to prospective companies are workforce and security. As a final note about growth in Santa Teresa, Mr. Pacheco said that construction of new speculative business space is on hold until the large vacancy rate in neighboring El Paso is reduced.

F Turning to development along the border on a broad scale, Mr. Pacheco said he had agreed to be on the development board for the Columbus port of entry. He said coordinating development between the ports of entry is difficult because the logistics chains for shipping are individually corridorized. However, he said, he does see opportunities to build out the logistics train for the Columbus-Palomas, Mexico, port of entry.

Roundtable Discussion: Proposing Solutions to Major Job-Creation Barriers

T Participants divided into four groups to discuss major factor-of-production gaps, or barriers to the creation of new economic-base jobs, and propose specific legislative and policy actions to overcome those barriers.

Adjournment

There being no further business before the council, the council adjourned at 3:50 p.m.