International Wire Group

Packet Contents

1. Facts about International Wire Group, Inc. and the Proposed CN Wire Corporation Deal
2. CN Wire Overstated Potential Impact of Project
3. Recent Op-Eds
4. Recent Media Coverage

Facts about International Wire Group, Inc. and the Proposed CN Wire Corporation Deal

<u>Unfairness and Inequality in Current Tax Incentive Policy (July 9, 2014)</u>
<u>Facts about International Wire Group, Inc. and the Proposed CN Wire Corporation Deal</u>

- **<u>International Wire and CN Wire are direct and substantial competitors in Doña Ana. They each manufacture and sell bare copper wire to the same industries</u>.**

- CN Wire plans to open a bare copper wire manufacturing facility in Santa Teresa ("the Project"), less than a mile away from International Wire's Santa Teresa facility.

- The State and Doña Ana County have agreed to provide CN Wire with the following subsidies for the Project:

    - $2.75M in LEDA funding from the State that CN Wire is using for the purchase and renovation of its building;

    - Approximately $500K in JTIP funding from the State for use in training new employees; and

    - $70M in Industrial Revenue Bond financing from the County, which will allow CN Wire to avoid, at least, property taxes and gross receipts/compensating taxes on the approximately $30M in equipment it purchased.

- **<u>Providing CN Wire with a substantial government subsidized cost advantage will have a major impact on International Wire's business in Santa Teresa</u>.**

- **<u>International Wire exercised its rights under New Mexico statute 4-59-15 and requested that the Board of Finance determine whether CN Wire is its direct or substantial competitor. The bonds cannot be issued if the Board finds CN Wire to be such a competitor. International Wire believes a full evidentiary hearing, with discovery, is necessary to ensure the process meets the clear intention of the statute.</u>**

- International Wire acquired its Santa Teresa Facility in 2011 by purchasing the assets of a financially-distressed local business for approximately $12,000,000 in cash, preventing the loss of 30 jobs in Doña Ana. International Wire resurrected the business and now employs approximately 65 people in Santa Teresa. Unfortunately, the owner of International Wire's building has refused to sell, and International Wire leases the facility.

- **<u>International Wire did not ask for incentives from Doña Ana or the State; it purchased and expanded the Santa Teresa Facility with its own resources</u>.**

- International Wire invested over $4M in capital improvements in 2012 and 2013. It has invested thousands of hours and its financial resources—without any government incentives—to establish its trained and stable Santa Teresa workforce.

- CN Wire no doubt will seek to hire International Wire's fully trained and experienced employees. International Wire will suffer substantial additional costs and potential production disruption from this poaching of employees.

- **The LEDA application required CN Wire to describe its competition. CN Wire's LEDA Application Supplement stated: "CN Wire's largest competitor has a number of locations throughout the United States**." (LEDA Application, pg. 20.21 of April 22 Doña Ana County Board Materials.)

  - **CN Wire failed to tell the State and Doña Ana County that CN Wire's largest competitor was literally across the street from the proposed project (less than 1 mile on a square cul de sac).**

  - Why would CN Wire do that?

- The Economic Impact Analysis submitted by CN Wire was prepared by Incentis Group, LLC, the same company acting as CN Wire's relocation consultant. International Wire has retained Dr. David Schauer, Ph.D, Assistant Professor of Economics at the University of Texas at El Paso, to conduct an objective Economic Impact Analysis that will finally identify the realistic potential impact of the Project.

- International Wire met with Secretary of Economic Development, Jon Barela, regarding its concerns about the subsidies provided to CN Wire. Mr. Barela informed International Wire that:

  - **International Wire could not obtain LEDA funding or Industrial Revenue Bonds because it was not a new or expanding business**;

  - Mr. Barela suggested that International Wire could obtain LEDA or IRB benefits if it closed its existing Santa Teresa facility (which is landlocked), closed its existing El Paso Facility (which can be expanded to almost double in size), and opened a new facility in Santa Teresa;

    - International Wire informed Mr. Barela that this was not a legitimate offer because International Wire would incur extreme costs and almost certain production disruptions with such a move.

  - Mr. Barela informed International Wire that it could apply for JTIP and the High Wage Tax benefit plans offered by the State. These benefits are available to all New Mexico businesses, and the offer was not specific to International Wire.

- At the June 10, 2014 Doña Ana County Commissioner's meeting, International Wire was criticized by State, the County, and their economic development partners for not seeking tax incentives upon moving into Santa Teresa. They also incorrectly claimed that the same tax incentives are currently available to International Wire.
  - **Is that the economic development message the State of New Mexico really wants to send to its existing businesses, especially those that do not seek handouts?**

CN Wire Overstated Potential Impact of Project

Unfairness and Inequality in Current Tax Incentive Policy (July 9, 2014)
CN Wire Overstated Potential Impact of Project by Approximately 75%

- CN Wire Corporation plans to build a bare copper wire smelter in Santa Teresa ("the Project") using Industrial Revenue Bond financing. CN Wire's IRB application included an Economic Impact Analysis conducted by Incentis Group, LLC, which also acted as CN Wire's relocation consultant.

- **CN Wire's analysis utilized inaccurate and unsupported assumptions, inflating the Project's estimated economic impact by approximately 75%.**

    - CN Wire/Incentis assumed that all of its employees would live in Doña Ana, and their average compensation would be $58,000, approximately $24,000 per year more than CN Wire disclosed in its LEDA funding application.

- Using these faulty assumptions, CN Wire/Incentis found the following potential impacts:

	Direct Effect	Total Effect
Employment	195	450
Compensation	$ 8.2 million	$ 14.1 million
Economic Output	$ 235.5 million	$ 266.9 million

- Dr. David Schauer, Ph.D., an Assistant Professor at UTEP who has conducted independent Economic Impact Analyses for the City of El Paso, found that the Project may generate the following impact for Doña Ana County:

	Direct Effect	Total Effect
Employment	49	106
Compensation	$ 1.6 million	$ 3.9 million
Economic Output	$ 57.7 million	$ 64.9 million

- **Dr. Schauer also found that the Project may generate an even greater impact in El Paso County, Texas:**

	Direct Effect	Total Effect
Employment	184	327
Compensation	$ 6.3 million	$ 12.8 million
Economic Output	$ 49.1 million	$ 79.9 million

- The economic impact above does not include reductions for "substitution effects," which require the impact to be reduced by the amount of revenue and employees that CN Wire takes from existing Doña Ana County businesses.

Recent Op-Eds

THE DAILY TIMES FARMINGTON NEW MEXICO

July 6, 2014 – Farmington Daily Times – *Is New Mexico destroying its own in the name of Economic Development?*
By: The New Mexico Business Coalition

New Mexico needs jobs – and lots of them. The challenge is to develop new opportunities without hurting or destroying existing businesses in the state.

Free enterprise and healthy competition are good for everyone. It makes companies stronger and provides better opportunities for employees. State subsidized competition, on the other hand, is detrimental all the way around and makes the state less attractive as a place to do business.

Why? Because if the state will get involved in subsidizing one company over another (choosing a company to succeed through state handouts and one that may ultimately be driven out of the state — or worse — to failure), those conditions will eventually have a detrimental effect on the state by potentially creating a disincentive for companies to move here and invest their own money. Plus, it could be YOU, YOUR Company, or YOUR employer that is next on the chopping block.

According to the Las Cruces Bulletin (6/13/14), the state and Dona Ana County are currently courting CN Wire, a Turkish owned copper wire manufacturer, to set up shop in Santa Teresa. The Doña Ana County Commission has approved $70 million in taxable revenue bonds. The New Mexico Board of Finance must first rule on whether it would result in unfair competition. If the ordinance becomes law, CN would only pay 25 percent of the normal amount of property taxes.

Doña Ana County residents and businesses, brace yourself for yet another taxable event for which you will ultimately be responsible. If approved, you're going to pay . . .

In addition to the bond issue, Job Training Incentive Program (JTIP) has awarded a grant of $537,626 and there will be Local Economic Development Act (LEDA) funds available as well. And just to sweeten the deal, CN's operating equipment will be exempt from gross receipts taxes.

So what's the problem with providing such great incentives to a company that promises to create 195 jobs in three years? There is an existing company, International Wire Group (IWG), in the same business located within one mile of CN's proposed site. IWG has never received state incentives or subsidies of any kind.

In fact, IWG purchased a failing business in 2011, saving at least 20 jobs. Subsequent to the purchase, IWG invested $4 million in capital improvements and grew the business to 65 employees.

NM statute 4-59-15 states that if a company maintains that a "proposed project would directly and substantially compete with such an existing business or enterprise [ ] the bonds in connection with such project shall not be issued until the state board of finance has determined that the proposed project will not directly or substantially compete with an existing business or enterprise located within the boundaries of the county or within five miles of the proposed project"

So on the subject of unfair competition ... CN can effectively drive prices down while still making a profit because they will be operating with only a fraction of the taxes and operational costs that would be incurred without state subsidies. Margins are slim in copper wire manufacturing and IWG must cover its costs. Will IWG be able to stay in business with this type of state-subsidized competition?

Free enterprise and healthy competition are good for everyone. Subsidizing a new company to the detriment of an existing one is neither free enterprise nor does it provide for healthy competition. Government should provide equal business opportunities for growth and development. Beyond that, it needs to get out of the way and stop choosing winners and losers. Period.

The New Mexico Business Coalition is a statewide nonprofit association that works to improve the business environment for companies and the quality of life for all New Mexicans. Its nonpartisan educational efforts focus on providing New Mexicans the facts about regulation, legislation and elected officials' decisions affecting them.

LAS CRUCES SUN-NEWS

July 6, 2014 – Las Cruces Sun-News - *Unfair Subsidies won't help New Mexico Economy*
By: Nick Monnheimer

There is no question that New Mexico faces significant economic challenges. Our overreliance on Washington's largesse combined with business-unfriendly tax and regulatory structures have finally caught up with us. This has led to New Mexico bleeding jobs and people to other states, particularly our economically freer neighbors.

This has led to desperation among some quarters. Democrat Sens. Keller and Candelaria seem to have even proposed a special legislative session for the sole purpose of offering subsidies and incentives to the Tesla car company. The hope is to attract a proposed battery factory to the State despite no concrete indicators from Tesla as to where they wish to locate said factory or what their criterion are.

Unfortunately, these Democrat legislators are not the only ones willing to engage in bad economic policies for a short-term political benefit in the form of "jobs." Doña Ana's County Commission recently voted 5-0 to grant an industrial revenue bond (IRB) to a Turkish wire company to encourage the company to come to Santa Teresa. While this financing mechanism is somewhat complicated as a means of giving special advantages to recipients, the basic effect of an IRB it's exempt, for up to 30 years from property taxes on land, buildings, and the useful life of equipment purchased with bond proceeds.

While we at the Rio Grande Foundation prefer fair, free, and open economic policies, the kicker is that the subsidized Turkish firm is planning to open their door across the street from the International Wire Group, an existing player in the same market. It goes without saying that an unequal playing field inevitably favors one company over another and could allow the new entrant to undercut its cross-street rival on price or use its advantage to hire workers away from the existing company.

So, the very justification for issuing these bonds to the Turkish wire company – job creation – will likely backfire as the new company uses its government-favored position to squeeze its competition. Unfortunately, it does not seem to have occurred to the Commission that their policies may backfire in this way.

Whatever the reason they have for issuing this bond, it is nevertheless illegal. According to section 4-59-15 of the New Mexico State Board of Finance review provision: "The bonds in connection with such project shall not be issued until the State Board of Finance has determined that the proposed project will not directly or substantially compete with an existing business or enterprise located within the boundaries of the county or within five lies of the proposed project."

Approval of this subsidy package, unlike any potential deal for Tesla, would appear to be in direct violation of the State's own laws/regulations. On those grounds alone, the Board should reject the proposed subsidies out of hand.

While we certainly understand the desire on the part of policymakers to act quickly to attract businesses to the State, policymakers need to first and foremost respect those businesses that are already here in our communities providing jobs and tax revenue for our communities and the State. The worst thing that can be done is to offer generous subsidies – at taxpayer expense – to attract competition for existing New Mexico businesses.

The term “pro-business” is often a catch-all used to describe government policies that may, unfortunately result in government policies being abused for the benefit of some businesses at the expense of other businesses and taxpayers at large. New Mexico should instead strive for free market policies that provide reasonable taxes and regulations across the board. When that challenge is undertaken in Santa Fe, New Mexico will finally rise from the bottom of so many bad lists.

Monnheimer is a Policy Analyst with New Mexico’s Rio Grande Foundation. The Rio Grande Foundation is an independent, non-partisan, tax-exempt research and educational organization dedicated to promoting prosperity for New Mexico based on principles of limited government, economic freedom and individual responsibility.

ALBUQUERQUE JOURNAL

June 29, 2014 – Albuquerque Journal – *Handouts to new firms ignore existing businesses*
By: Ed Flynn, COO International Wire Group

Efforts by the state of New Mexico and Dona Ana County to create new jobs and promote economic development are critical to exploiting the unique opportunity presented by Santa Teresa's growing status as an industrial base and manufacturing center. A recent decision by the Dona Ana County Commission poses a threat to the very growth the county intends to foster.

While officials go to great lengths to bring a new company to New Mexico, they seemingly disregard the effects of those efforts on companies that already reside in the county, have continually contributed to the tax base, increased local employment and invested their own capital without government handouts. International Wire Group, Inc., is such a company.

In 2011, IWG purchased the assets of a failing business in Santa Teresa. Using its own capital, IWG saved 30 jobs in Dona Ana County and within three years more than doubled its workforce.

IWG did not seek state subsidies in making its investment; it invested time and capital in Santa Teresa for strategic business reasons: Santa Teresa's location to the Mexican border, to bare copper wire customers and to copper materials made the area a logical choice.

Simply, the free market and business priorities brought IWG to Dona Ana County, and it is those same strategic priorities that would attract our competitors and make financial incentives and inducements unnecessary.

Yet, the county's recent conditional approval of a $70 million incentive package for CN Wire Corporation, a Turkey-based company, to create a bare copper wire manufacturing facility less than a mile from that of IWG in Santa Teresa is a clear deviation from those free-market principles.

IWG has successfully competed in the bare copper wire industry and against CN Wire for decades, and will continue to do so in Santa Teresa. But IWG expects to compete on a level playing field where the free market – not government – determines winners and losers.

The New Mexico State Legislature, however, has wisely provided protections for companies such as IWG that have invested their own capital from unfair competition.

Upon the dispute of an "existing business or enterprise within the county," New Mexico law prohibits industrial revenue bonds from being issued "until the state board of finance has determined that the proposed project will not directly or substantially compete with an existing business or enterprise located within the boundaries of the county or within five miles of the proposed project."

Issuing industrial revenue bonds to a competitor of an existing business undermines the investments existing companies have made in their employees and the community. And while the economic development justification for this tax package is job creation, there is no requirement in this $70M deal that jobs go to New Mexicans at all.

Since 2011, IWG has invested thousands of hours – and substantial amounts of its own capital – establishing its trained and efficient workforce; it has lived through the growing pains of a steep learning curve of a plant startup. Similarly, why send a message to the growing number of companies in Santa Teresa and throughout New Mexico that the county or state will turn on them if a competitor hints at coming to the region?

Unfortunately, the county, state and economic development partners seem to have lost sight of the critical importance of private business investment. At the June 10 Dona Ana Commission meeting conditionally approving the bonds, IWG was actually criticized for not seeking government handouts. Does the government really want to send such a message rather than promoting the merits of the business environment, new tax policy and its pro-business policy?

Still, IWG believes in the future of Santa Teresa and the Borderplex Region. We've grown two facilities without government handouts: the Santa Teresa factory and another bare copper wire manufacturing facility in El Paso.

It is time for the county to recognize the benefits of Santa Teresa and of private business investment, and to stop providing unwarranted subsidies to direct competitors of existing businesses.

June 25, 2014 – New Mexico Business Coalition – *Is New Mexico Destroying its Own in the Name of Economic Development?*

By: Carla Sonntag

New Mexico needs jobs – and lots of them. The challenge is to develop new opportunities without hurting or destroying existing businesses in the state.

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Why? Because if the state will get involved in subsidizing one company over another (choosing a company to succeed through state handouts and one that may ultimately be driven out of the state - or worse - to failure), those conditions will eventually have a detrimental effect on the state by potentially creating a disincentive for companies to move here and invest their own money. Plus, it could be YOU, YOUR Company, or YOUR employer that is next on the chopping block.

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GOLDWATER INSTITUTE

Choose Economics Over Politics: Reject the CN Wire Deal
By: Byron Schlomach, Ph.D.

In a mere 300 years, humanity has moved from living on a pitiful three dollars a day per person to living on many times that. The vast majority of human history saw our forebears living in a perpetual state of grinding poverty. The few who escaped were usually rulers – the government – who expropriated the little their people were able to produce, often redistributing to others the rulers arbitrarily chose to reward. In so doing, government discouraged innovation, investment and trade, perpetuating the poverty of the people for whom they pretended to act. One key to our being so rich today has been the different role government has played in the United States. Unfortunately, this lesson appears to have been lost, nowhere more thoroughly than in the State of New Mexico and among the Commissioners of Dona Ana County.

In the name of economic development, government is increasingly an impediment to economic development and growth. The commissioners of Dona Ana County recently voted to conditionally approve the issuance of taxable industrial development bonds for the sake of CN Wire, a copper wire manufacturer, which will get a 75 percent discount on property taxes and a discount on gross receipts taxes on all purchased equipment. The New Mexico State Board of Finance will now consider whether CN Wire directly or substantially competes with any existing Dona Ana County business. If the Board of Finance's answer is no, CN Wire will then set up shop less than a quarter mile from another copper wire company that has been in Dona Ana County, paying its full freight of taxes, for years. With a deal like this in the offing, one wonders who would now be stupid enough to invest in Dona Ana County without first getting a subsidy.

In fact, when International Wire, the existing taxpayer, attempted to describe its concerns to Dona Ana Commissioners, the company was criticized by government economic development professionals for not taking government handouts when moving into New Mexico. The Commission and economic development professionals did not care about the impact of the CN Wire transaction on free market competition or encouraging fully-private business investment; they chose to attack the company that invested its own capital, without subsidies, and dared to question using government subsidies in economic development efforts. The message is clear. Don't bring your business to Dona Ana County unless you make a deal with the state economic development office and the commissioners first. And if you are already there, be afraid, be very afraid, if you refuse to play ball with the bureaucrats. Unfortunately for New Mexicans, the state and county may actually prefer it this way.

New Mexico and Dona Ana County are not the only governments to forget the lesson that free enterprise is the true engine of our prosperity, where government acts as an objective referee, not as an all-powerful potentate handing out favors. In Arizona, the legislature has twice voted to create special amusement park districts with favorable tax treatment and tax free bonds in an attempt to induce someone to build an amusement park in specific areas of that state. Both times, completely private efforts to develop a park were stymied by the legislature's actions. Arizona will likely never have a major amusement park as a result.

An economic study showed that corporate economic activity in the districts of newly minted congressional chairmen actually shrinks despite the fact that you would expect increased federal pork to those districts to increase economic activity. The study's authors speculated that while the cronies of senior congressmen undoubtedly do well, others avoid those districts in order not to be put at a disadvantage. The result is a net negative.

And that is what Dona Ana County and New Mexico will get from the laws of economics – a net negative. They are open for business alright, political business. Unfortunately, political business and economic business are two different things. The former redistributes the pie and shrinks it by discouraging those willing to profit only by dint of hard work. The latter grows the pie by encouraging those willing to profit only by dint of hard work. New Mexico and Dona Ana County will benefit most if the CN Wire deal is rejected by the Board of Finance, choosing economics over politics.

Recent Media Coverage

ALBUQUERQUE
JOURNAL

July 2, 2014 – Albuquerque Journal – *ACI seeks records on state spending*
By: Journal Staff

The Association of Commerce and Industry has submitted requests under the Inspection of Public Records Act for records on contract spending to multiple state departments with a goal of determining how much money goes to out-of-state companies as opposed to in-state businesses.

The group sent requests to the state departments of Transportation, Information Technology and General Services.

The purpose of the request is to hold state government accountable for any decisions that adversely may affect New Mexico jobs, ACI President and CEO Dr. Beverlee McClure said in a news release.

"ACI is working to keep businesses, jobs, and opportunities here in New Mexico. Our members have raised concerns that New Mexico companies may not be getting a fair chance to compete for New Mexico tax dollars through the procurement process," she said.

"If we want to grow as a state and improve the opportunities available to New Mexicans, our state government needs to be looking for opportunities to keep our money here in New Mexico, instead of handing over even more jobs, opportunities, and money to other states," McClure said. "We hope ACI's IPRA request will shed light on these concerns, and we will continue to work closely with the state government to improve process and opportunities for New Mexicans."

ACI has asked state officials to provide "the dollar amount of contractual purchases … from companies with billing addresses located in New Mexico versus companies with billing addresses located outside of New Mexico" for both fiscal years 2013 and 2014. The three departments in question were selected as they represent the greatest percentages of state expenditures.

May 28, 2014 – Al Jazeera America – *A binational town on the U.S. – Mexico border?*

SANTA TERESA, N.M. — Over a low bluff west of El Paso, Texas, in the barren desert of the Rio Grande Basin, at the point where New Mexico, Texas and Mexico meet, Union Pacific Railroad opened a sprawling train yard 11.5 miles long and a mile wide today. This $412 million, state-of-the-art facility will transform a rough, sandy plot dotted with mesquite bushes into a channel through which global capital passes at high speed.

The thoroughfare of concrete and steel stretches into the horizon east and west. From the air, they say, the Santa Teresa yard looks like a snake that has just swallowed its prey: narrow at the head, with a thick girth and a very long tail.

The huge yard is a sign of the building boom in the rails, spurred by shipments of chemicals for fracking and transportation of oil extracted from shale. The new development has created a boundary-busting boomtown in this desolate part of the border region. Just as the Obama administration is spending as much as $3.2 million a mile to build a tall fence that rises 18 feet into the air and can extend 6 feet underground, the Mexican and American governments are working to eliminate all barriers to commerce on the seven-square-mile plot adjacent to the yard.

The U.S. Department of Transportation predicts that rail freight traffic will increase 50 percent by 2040, propelling a capital investment in construction not seen since the Gilded Age, when these train tracks were first laid down. This year the nation's railroads are expected to spend a record $26 billion improving their track and facilities, up from the previous record of $14 billion spent in 2013, according to the American Association of Railroads, an industry-funded organization.

The El Paso border crossings, just 13 miles away, are heavily policed by the border patrol; even at midnight, stadium lights turn the riverbed of the Rio Grande, which forms the boundary between Texas and Mexico, to a perpetual noon. In contrast, the recently constructed crossing at the rail yard, a freestanding building surrounded by acres of empty land, is a lonely outpost.

On the Mexican side, visible from the Santa Teresa crossing, is the Taiwanese-owned Foxconn Technology plant, which primarily manufactures Dell computers for the U.S. market. This year the company will expand its operation in Juarez fourfold, adding three huge new electronics assembly buildings to the existing one.

Foxconn built its own 3.7-mile road from the plant to the Santa Teresa crossing to speed the passage of its products into the United States, says Pancho Uranga, vice president for the company's Latin American operations, which includes six plants in Mexico.

Uranga says he is in negotiations with U.S. Customs and Border Protection to establish a pilot project in which officials will clear cargo before it leaves the Foxconn plant, as opposed to each truck individually waiting to cross at the border. He has set aside a large building on company property and outfitted it for the use of customs officials, anticipating the day, perhaps later this year, when computers and other goods the company manufactures can go swiftly from the plant to market without stopping.

"Like many communities on the border, we have a much more fluid idea about crossing it," says New Mexico's secretary for economic development, Jon Barela, who grew up in the southern part of the state and whose grandparents owned a farm near the border.

An idea for a town

Until the New Mexico government stepped in to provide infrastructure, Santa Teresa was an unincorporated part of greater El Paso, an idea for a town rather than a destination, with no mayor, no city hall, no school system, just a few scattered houses and no water or electricity. But that also is about to change.

"When I was a kid in high school, this is where we'd go when we wanted to make noise," says Captain Scott, a railroad contractor who grew up in El Paso. He and his friends would camp out and shoot, stand around a fire and drink, because they knew that "no one could hear us and no one would bother us. Now our favorite place to build a fire is crawling with federal railroad police."

The next phase of this binational collaboration is the construction of two towns meant to eventually ignore the border altogether. Last year, New Mexico Governor Susana Martinez and Chihuahua, Mexico, Governor Cesar Duarte signed a formal agreement that the two states would cooperate on a master plan to build adjacent towns: Santa Teresa in New Mexico and San Jeronimo across the border.

New Mexico and Chihuahua are combining efforts on infrastructure for roads, water, energy, waste treatment and power. Streets in Santa Teresa will be contiguous with streets in San Jeronimo, awaiting the day when the border is no longer a barrier, when, as people say in Santa Teresa, it's no longer "made in America," but "made in North America."

Private landholders anticipate a huge profit. The 70,000 acres on both sides of the border that will together form this planned community are held by two big real estate concerns: Verde Realty in New Mexico and Corporacion Inmobiliaria in Mexico.

Corporacion Inmobiliaria is breaking ground on the first housing development in San Jeronimo: 500 modest houses, about 800 square feet each, that will cost about $20,000 a piece. With Foxconn workers earning roughly $50 a week, the price is still substantial. The chief architect for the development, Octavio Lugo, notes that Foxconn employees will get Mexican government assistance for the down payment on their homes. “We’re going to set up a sales office for these houses right in the Foxconn plant,” Lugo says.

Santa Teresa’s plan to develop more housing, albeit in the $100,000 to $300,000 range, is also underway. Jerry Pacheco is the executive director of the International Business Accelerator, which brokers the leases for industrial space near the new yard. Pacheco predicts that Santa Teresa will have a 50 percent increase in new housing construction in the next five years.

Barela has helped free up state funds for infrastructure development so that the manufacturing operations near the new train yard can expand rapidly.

Border crossings

For more than a century, rail traffic to this region came through the train yard in El Paso. As the city has grown, the rail yard, which is adjacent to downtown El Paso and within sight of Juarez, has been increasingly hemmed in by development; meanwhile, the size and weight of trains has increased dramatically.

No longer the belching behemoths that befouled the air, the trains now describe themselves as green transportation, boasting how a train can move a ton of freight a mile on a gallon of fuel, in contrast with the cost of trucking. The new trains stretch up to two miles long and travel at speeds of up to 70 miles an hour. To stand next to the double-stacked containers, taller than a two story building, is to be, literally, dwarfed by global commerce. These trains, often assembled in Long Beach, California, with containers off-loaded from ships that come from Asia, are too large to be handled efficiently in a rail yard like El Paso’s.

Meanwhile, as U.S.-Mexico trade has grown, El Paso’s four border crossings with Juarez are so jammed with car, truck and pedestrian traffic that local radio stations report the wait to cross at the border along with the traffic report. For trucks carrying goods manufactured in Mexico and waiting to be loaded onto trains in El Paso, these waits can be two to four and even six hours long. Santa Teresa is also depending on the fact that the older bridges that cross the Rio Grande to El Paso will strain under the weight of heavy intermodal traffic, meaning freight that travels via ships, trains and trucks, before reaching the final destination. Having to cross that river on bridges constrains cargo weight limits because old bridges can only handle so much tonnage, Barela says.

The mayor of Santa Teresa

If anyone can be seen as the mayor of the not-yet town of Santa Teresa it is Pacheco, who can explain the details of every tax break, rewritten regulation, infrastructure improvement and much of the business in the seven-square-mile free-trade zone where he leases industrial space to companies from Germany, Japan, Turkey, Canada and Mexico.

Pacheco, who works with the state legislature to get subsidies, tax breaks and regulatory relief for the Santa Teresa development, knows where the discretionary funds for economic development are hidden and how to get them released. He's adept at writing legislation to get special privileges for the economic zone and finding a legislator to sponsor the bill. Although New Mexico's legislature is only in session for 30 days a year, Pacheco spends that month in Albuquerque advancing the interests of Santa Teresa. Besides getting the state and federal governments to pay for roads, water pumps, wastewater treatment and hazardous material facilities, he worked to get individual income tax waived for Texas residents working in the industrial zone. The special consideration he's proudest of, however, is the overweight-truck zone.

In the weeks before the train yard opened, the otherwise desolate Santa Teresa had all the bustle of a boomtown. As Pacheco turns onto a main street in the industrial park he points to a newly arrived New Jersey-style prefab diner, dropped down wholly formed in the parking lot of a recently finished 56-room motel that, he says, will add 20 more rooms to house the train crews.

The promotional video for the Santa Teresa/San Jeronimo development calls San Jeronimo "the most interesting city in the world," although at this point there is nothing there. "It's all underground," says Lugo, the architect. "Infrastructure you cannot see, but we have worked very hard to place it there."

Pacheco isn't perturbed that the development is, at least for now, little more than an illusion.

"That's the advantage," he says, recalling a time back in 1989 when he and his wife drove over the cattle trails that now have become the roads to the manufacturing plants. "This is a blank slate where business can do practically anything it wants."

ALBUQUERQUE JOURNAL

April 15, 2014 – Albuquerque Journal- *Infrastructure crisis building along U.S. – Mexico border*

SANTA TERESA – The Santa Teresa industrial zone in southern New Mexico may be the victim of its own success as infrastructure there reaches a choke point.

Commercial activity at the border industrial parks is booming as trade activity with Mexico's "maquila" assembly industry grows and as the Union Pacific railroad's new refueling and transshipment center, which began operating April 1, ramps up operations.

But with hundreds of new trucks now rumbling through the parks en route to and from the transshipment facility, business tenants, public officials and economic development specialists are bracing for an unprecedented pounding on local infrastructure.

A crisis is building, with local roads and border crossings pushed to their limits and few, if any, funds to fix the problems, said Jerry Pacheco, executive director of the International Business Accelerator at Santa Teresa.

"We're at a critical stage of development, and we urgently need the public and private sectors to work together to deal with it," Pacheco said. "UP finished building its facility a year ahead of time and we didn't plan well enough for it. Now we're reacting when we need to be proactive."

Pacheco and others warn of growing bottlenecks at the Santa Teresa Port of Entry, plus weak asphalt roads breaking apart under the stress of increased traffic.

Road repair urgent

For now, the most pressing need is to upgrade Airport Road and Industrial Drive, two aging asphalt streets that run along the north and east sides of Santa Teresa's busiest industrial parks, a few miles north of the port of entry.

"There is no more critical, in-your-face need than road repair," Pacheco said. "It's the biggest thing we're facing."

Both those streets are constantly cracking under the weight of trucks and cars, said Ed Camden, president of Southwest Steel Coil Inc.

"Airport Road looks like alligator skin," Camden said. "You get a half inch of rain and the next day it's full of holes – completely porous with little chunks of crumbling asphalt and cracks all around. It wasn't made to handle the constant, heavy traffic it already bears, and now we're looking at hundreds more trucks rolling up and down that road from UP."

But there’s no money for repairs, much less upgrades, since a $2 million capital outlay to re-pave Airport Road failed to win approval in this year’s legislative session.

And even if that money were available, it would only provide a short-term fix since Airport Road needs to be converted to concrete to manage heavy traffic, at a cost of about $4 million, Pacheco said.

Port of entry problems

Commercial cargo heading to Mexico faces a similar situation at the port of entry.

There is one asphalt lane for both trucks and passenger cars crossing the border. And, complicating matters, between 500 and 700 used cars are exported into Mexico through that same lane every day as part of a robust auto business that is creating huge bottlenecks, Pacheco said.

With the UP facility now operating, an estimated 100 to 300 additional trucks are expected to head south daily through the port, foreshadowing more congestion until more lanes are built with dedicated commercial lanes.

The immediate problems could be addressed soon, thanks to a $350,000 capital outlay approved in the 2013 legislative session, said New Mexico Border Authority Executive Director Bill Mattiace. That money will pay for a second southbound lane to separate the commercial traffic, plus a new northbound commercial lane that will exclusively manage trucks coming in from Mexico through a “foreign trade zone” now under negotiation.

The zone will allow commercial cargo to be “pre-cleared” by U.S. agents in Mexico to speed shipping services for products coming from the maquilas. That’s important to Taiwanese electronics giant Foxconn, which operates two factories on the Mexican side in San Jerónimo, and which is pushing for pre-clearance to provide “just-in-time” delivery to customers.

Private investment

Foxconn will invest $2.1 million to accommodate the new trade zone, including construction of two dedicated, four-lane cement roads for inbound and outbound cargo on the Mexican side, said Francisco Uranga, vice president and chief business operations officer for Latin America.

New Mexico has approved significant funds in recent years for some infrastructure. That includes $12.5 million to upgrade water systems and $9.9 million for a new concrete road on the south side of the industrial parks that now directly connects the UP rail yard with Pete Domenici Highway, which runs from the port of entry to Interstate 10.

Gov. Susana Martinez and Chihuahua state Gov. César Duarte agreed last summer to work together on a cross-border master plan to jointly address infrastructure issues. But the appointment of Mexican representatives to binational working committees has been delayed since the fall after a new secretary of economy took office in Chihuahua.

Meanwhile, back in Santa Teresa, businesses and economic development specialists are facing other growing pains.

For one thing, so many new companies have moved into the industrial zone in recent years that all available building spec space is nearly gone, Pacheco said. There's still plenty of land, with 3,500 industrial acres now held by real estate company IDI, but lack of ready spec facilities makes recruiting new companies harder.

"We've lost a couple of deals with companies that wanted to be here but needed 30,000 or 50,000 square feet that we didn't have available," Pacheco said.

Companies in the parks also face a shortage of skilled labor because 37 percent of the workforce in southern Doña Ana County lacks a high school diploma and some qualified workers in places such as Las Cruces, about 40 miles north, don't want to commute. As a result, Santa Teresa businesses recruit employees from El Paso, Pacheco said.

Also, the Santa Teresa airport needs significant upgrades if it's going to handle more commercial traffic and to gain international status needs a new building to house U.S. Customs Border Protection.

"Anybody now coming in from Mexico has to fly into El Paso because you can't land directly here," Pacheco said.

"If we're going to manage everything coming down the line, we need to get away from just the here and now, and focus on a far-sighted strategic planning process," Pacheco said. "We have to take the bull by the horns."