

MINUTES
of the
THIRD MEETING
of the
ECONOMIC AND RURAL DEVELOPMENT COMMITTEE

August 5-6, 2013
Turtleback Mountain Resort
Elephant Butte, NM

The third meeting of the Economic and Rural Development Committee (ERDC) for the 2013 interim was called to order by Senator Howie C. Morales, chair, on Monday, August 5, 2013, at 9:55 a.m. at the Turtleback Mountain Resort in Elephant Butte.

Present

Sen. Howie C. Morales, Chair
Rep. Debbie A. Rodella, Vice Chair
Sen. Jacob R. Candelaria (Aug. 5)
Rep. Ernest H. Chavez
Rep. Nora Espinoza
Rep. Mary Helen Garcia
Sen. Richard C. Martinez (Aug. 5)
Sen. Michael Padilla

Absent

Rep. George Dodge, Jr.
Sen. Phil A. Griego
Sen. Ron Griggs
Rep. Dianne Miller Hamilton
Rep. Yvette Herrell
Sen. Pat Woods

Advisory Members

Sen. Lee S. Cotter
Rep. Sandra D. Jeff (Aug. 5)
Rep. Georgene Louis
Rep. Patricia A. Lundstrom (Aug. 6)
Sen. John Pinto (Aug. 6)
Rep. Patricia Roybal Caballero
Rep. James E. Smith (Aug. 5)

Sen. Craig W. Brandt
Rep. Zachary J. Cook
Sen. Timothy M. Keller
Sen. Carroll H. Leavell
Rep. James Roger Madalena
Sen. Mark Moores
Sen. Mary Kay Papen
Rep. William "Bill" R. Rehm
Rep. Nick L. Salazar
Rep. Thomas C. Taylor
Rep. Monica Youngblood

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

Staff

Monica Ewing, Staff Attorney, Legislative Council Service (LCS)
Tessa Ryan, Staff Attorney, LCS
Branden Ibarra, Intern, LCS

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts are in the meeting file.

Monday, August 5

Welcoming Remarks

R. Eunice Kent, mayor of Elephant Butte, welcomed the ERDC and described the city's current and upcoming tourism and economic development projects. The city is working with the Tourism Department's New Mexico True campaign to advertise area attractions, which include Sierra del Rio golf course, Box Canyon jeep tours, hot mineral baths at Truth or Consequences and Spaceport America tours. Mayor Kent noted that although the state is experiencing one of the worst droughts in its history and Elephant Butte Reservoir's capacity is at a record low, activity at Elephant Butte has remained steady.

The City of Elephant Butte is partnering with the City of Truth or Consequences to promote other tourist attractions, including the nearby Spaceport America. Follow the Sun will provide transportation for spaceport visitors, who will receive on-site educational tours. Mayor Kent stressed the need for greater promotion of the spaceport by the state and the Economic Development Department (EDD).

New Mexico Borderplex: Economic Development and Challenges to Development

Davin Lopez, president and chief executive officer (CEO) of the Mesilla Valley Economic Development Alliance, noted that the state's taxpayers, especially those in Dona Ana County, are investors in Spaceport America who expect a return on their investment. Positive press attention and advertising by the New Mexico True campaign have improved public support of the spaceport.

Mr. Lopez discussed two principal areas that can serve as economic development tools: asset identification and product development. Asset identification involves assessing industry trends and opportunities and identifying unique industry assets, areas to develop and available resources. Product development involves planning short- and long-term infrastructure needs, developing partnerships by providing incentives for the private sector to invest in economic development, matching state investments with community investments, making specific policy changes to improve the business environment and developing a market for communities to sell their products and services.

The Santa Teresa Borderplex initiative — a model that could be used to spur other rural communities' development — has been successful in part due to the use of these tools. Nevertheless, the Santa Teresa area needs improved infrastructure and more qualified workers. Without an adequate, qualified labor force, corporations such as Union Pacific might be reluctant to commit to greater investment in the region.

Mr. Lopez discussed state assets, including the national laboratories, White Sands and flight test centers, all of which attract private-sector investors. Such investors can hesitate to commit to making investments because of the shortage of qualified labor. Often those industries perform testing here but conduct development in other states. He recommended that the state make investments, particularly in rural areas, to address this issue. Greater investment in work force development could ultimately create a new tax base, which would in turn generate revenues to reinvest in development programs.

With respect to the marketing of products in New Mexico, Mr. Lopez noted that the state has limited assets and that New Mexico Partnership operates on a \$900,000 budget while other states have millions of dollars in their development budgets.

Mr. Lopez commented that New Mexico, having ranked last among its bordering states in trade, labor, population and overall economic leverage, is not sufficiently competitive. New Mexico could become more competitive as a result of many private companies' relocation to the U.S./Mexico border; for every three jobs that a North American company creates after having relocated to Mexico, one U.S. job is created. Because of the congestion in El Paso created by vast international trade, some companies are relocating to nearby Santa Teresa. If this trend continues, these private-sector investors will improve the region's infrastructure at no cost to the state.

In 2011, three companies moved to Santa Teresa and constructed new warehouses and distribution centers. New housing developments, hotels, medical clinics, hospitals and a binational industrial campus grew out of the companies' presence there.

Many rural land areas are ripe for public and private-sector entities to invest in and develop. An example of an area awaiting development is Chaparral, a colonia. Its population of 20,000 and its location make it an attractive area for business. Because infrastructure — lacking in places like Chaparral — is necessary for economic development, he suggested that the state should contribute more to economic and rural development infrastructure funds. Further, the state should promote, advertise and market its assets. Improved infrastructure will lead to increased private-sector investment.

Questions and Comments

A committee member expressed concern about the apparent lack of infrastructure across the state and asked whether the United States Department of Agriculture (USDA) participates in economic development in rural New Mexico. Mr. Lopez responded that the USDA has resources to contribute to infrastructure improvement, but those improvements would be unproductive without a business plan to exploit them. Moreover, a labor force would not relocate to an unpromising rural area. The member pointed out that there are several sources of funding that could contribute to the infrastructure and economic development of rural areas and that entities such as the Jobs Council could help to promote that spending. Mr. Lopez agreed.

Another committee member asked Mr. Lopez what incentives should be directed toward rural areas and what role the EDD plays in rural development. Mr. Lopez recommended that the Job Training Incentive Program (JTIP), which has been a successful initiative, be changed to eliminate the state residency requirement. JTIP funds need to be consistently replenished to make the program a reliable incentive. He added that the EDD and state resources are critical for rural economies to flourish.

A committee member asked Mr. Lopez for his recommendations for promoting growth in the Santa Teresa area. Mr. Lopez thought that \$10 million to \$12 million more in state spending would improve success in the Santa Teresa area. He added that the state should develop plans that identify appropriate land for development. It should also invest in infrastructure projects and encourage private-sector investments.

A committee member asked whether there is a model elsewhere in the nation on which New Mexico could base its infrastructure fund or closing-fund apparatus. Mr. Lopez indicated that the Mesilla Valley Economic Development Alliance has developed such a model, which is based largely on directing revenue from local taxes toward local improvements. Members remarked that there is a prevailing lack of community support for these types of self-directed investments, so local leaders need to encourage their adoption.

A committee member asked for more information on deal-closing funds. Mr. Lopez recalled that the state had a recent opportunity to bring IBM to the state, but New Mexico was unable to sell its labor force to IBM and the company relocated to Baton Rouge. He added that, as part of the strategy to attract IBM to its state, Louisiana provided \$14 million to Louisiana State University to support its computer science department and thereby ensure a pipeline of graduates able to work at IBM. Louisiana also provided \$2 million to help with recruitment of qualified laborers in the event the state could not provide a sufficient work force for IBM. Community colleges and universities can be important partners.

A committee member noted that local leadership can help with development by cooperating with neighboring communities to help build infrastructure, including roads such as those in Hobbs and Eunice. The member then suggested that communities could contribute development funds that would be matched by the state.

On the topic of maquiladoras, Mr. Lopez said that assembly work is usually done in the United States, and for every three jobs in a Mexican maquiladora, one job will be created in the United States.

Economic Gardening: An Approach to Economic Growth

Dr. Beverlee J. McClure, president and CEO of the Association of Commerce and Industry, and Holly Bradshaw-Eakes, Finance New Mexico, discussed "economic gardening", which refers to an entrepreneur-centered approach to economic development. The term also refers to second-stage growth companies, or companies that are headquartered in the state, have operated in the state for at

least five years, generate annual revenues of between \$500,000 and \$50 million, have a work force of between five and 99 employees, display positive growth in three of the last five years, operate in an economic-base industry, intend and have the capacity to grow and can provide a proven model for future start-up operations.

Dr. McClure cited obstacles to the growth of New Mexico-based companies that apply the economic gardening approach. One is the large investment required; another is the lack of a qualified labor pool. To help overcome these issues, New Mexico could implement a model developed by a national team that conducts strategic research on second-stage growth and economic gardening and that has been implemented in Florida and Virginia.

Ms. Bradshaw-Eakes talked about Finance New Mexico, a project aimed at connecting start-up and established businesses with resources. The project was started in 2007 and focused on the need to disburse information throughout the state regarding the many resources and funds available for small businesses. She also discussed the "Grow It!" program aimed at providing information to businesses when they register to do business or when they renew business licenses through the state.

Ms. Bradshaw-Eakes also noted that there is a map on Finance New Mexico's web site providing unique links for each community in the state that will direct a user to financing resources geared toward that community.

Questions

A member asked whether there is a list of businesses in the state that are considered stage-two businesses. Dr. McClure said that the state does not collect such data but that New Mexico Business Weekly and Albuquerque Business First have some data that are self-reported.

In response to a question, Dr. McClure said she could provide the committee members with a list of people in the state who will be trained and certified in economic gardening.

Motion

The committee, without objection, approved the minutes of the first two ERDC meetings held on June 4 and July 8-9, 2013.

Recess

The committee recessed for the day at 12:30 p.m. Committee members took an afternoon tour of Spaceport America.

Tuesday, August 6

Reconvene

Senator Morales reconvened the meeting at 9:45 a.m.

Economic Strategies for New Mexico

Dr. James Peach, regents professor, Economics, Applied Statistics and International Business Department, New Mexico State University (NMSU), stressed that the state needs a new approach to economic and rural development. Specifically, the state should focus on economic development as a process, not a short-term goal; issues related to education, work force and infrastructure; a coherent development strategy; and systematic evaluation of development policies and projects.

The state's per capita income has generally been low, partly due to economic factors beyond the state's control. During the Great Recession, New Mexico ranked forty-second, and later forty-eighth, in per capita income. This marker of economic strength has remained relatively flat for the past 50 years. Dr. Peach highlighted the strong correlation between the national economy and New Mexico's economy; when the nation performs well, so does the state.

Dr. Peach discussed New Mexico's emergence from the Great Recession. Although the U.S. economy has been recovering, New Mexico's has not. The state has experienced a 1% increase in job growth since 2007, but the labor force is still down by 37,000 jobs. Dr. Peach speculated that it could take about five years for the state to return to its pre-recession job levels, but if the state creates only 1,750 jobs per year — the goal of New Mexico Partnership and the EDD — it could take as long as 20 years to recover to 2007 employment levels.

The low growth realized in the state is largely attributable to the mining industry, which includes oil and gas production. The southeast region, where mining is concentrated, is the only part of the state to experience net economic growth since the recession's onset. Other growth industries include education and health and human services.

Dr. Peach noted that one-fourth of the state's labor force consists of public-sector employees. The federal government, which contributes approximately \$28 billion to the state and to which the state returns approximately \$6 billion, employs many of these public-sector workers. Unlike industries such as manufacturing that are hard-hit during recessions, public-sector employment remains relatively strong during recessions. Nonetheless, government employment is not, and it should not be relied on as, a growth industry.

New Mexico's economic record is weak compared to other states, and New Mexico is recovering from the recession slowly. According to federally compiled data — which are becoming scarcer due to budget cuts but which are required to better understand the state's economy — New Mexico ranks forty-seventh in the nation in gross domestic product. Certain entities, such as the Jobs Council, the EDD and the New Mexico Association of Regional Councils, are working toward solutions to the issues that contribute to the state's low rank. He stressed that it will be important that all of those efforts are coordinated, working together rather than working on narrow aspects of economic development.

Dr. Peach asserted that education and course training are key solutions to the state's

economic issues. For New Mexico to become more competitive, it also must invest in infrastructure — namely, transportation and broadband availability.

Dr. Peach closed by urging that the state invest its resources wisely by establishing a systematic evaluation of the state's economic policies. To illustrate his point, Dr. Peach asked a question that he said was not formally posed prior to the \$200 million initial investment in the spaceport: whether the investment — or any investment — is the best use of that money.

Questions

In response to a question about how New Mexico compares with other states, Dr. Peach stated that New Mexico's housing market was not affected as severely as the rest of the nation, but the sectors that crippled the national economy were the same that hit New Mexico the hardest. The construction and housing industries suffered the most decline. For the first time in five years, those industries are experiencing some recovery.

A committee member asked about early childhood education and development. Dr. Peach responded that the improvement of early childhood education would be the most critical factor in effecting dramatic change. Another committee member commented that the state's lack of qualified educators and its policy of social promotion are resulting in serious problems for the state's education system, a system that the state should reevaluate.

Dr. Peach responded that the state invests a lot of money in public education and education policy, but many students who have gone through the public school system are not prepared for college, and those students fall behind in becoming members of the modern work force. New Mexico could be much more effective in educating students. A spectrum of services in the schools could positively affect economic development, including better pre-K programs, meals for qualifying students and their parents and dental and vision care. The state's relatively high number of higher education institutions — seven four-year schools and 22 two-year schools — raises each one's fixed cost and, in turn, the cost to the state of a bachelor's degree. For New Mexico to improve its labor pool and education deficit, structural reforms must be made.

A committee member suggested that an economic impact report be submitted from Spaceport America and that the state's universities become catalysts in addressing the state's educational issues.

Another committee member commented on the education issue, stating that colleges and universities should think outside of the box. By developing new technology programs that are innovative, students could be more prepared to become the high-tech work force for the twenty-first century. Dr. Peach informed the committee that high-technology programs do exist and that the various departments at NMSU are switching gears in order to help students become members of the modern work force.

A committee member requested that doctoral students should conduct research and engage economic development efforts right here in New Mexico.

Venture Space Small Business Incubator — University of New Mexico (UNM)

Dr. Chris Hall, department chair of mechanical engineering, UNM, and former Engineering Department faculty member, Virginia Tech, presented the background and history of Venture Space. Space missions, flights and unit construction comprise the activities of the United States space program. The current cost to the government for a shuttle launch is half a billion dollars. Dr. Hall described his enthusiasm for Spaceport America and said that space exploration is currently transitioning from government-based missions to commercial space exploration. With this major shift, the commercial industry is pushing space exploration to new frontiers. Formerly, under government direction, spacecrafts were becoming larger and larger; however, with the new commercial trends, spacecrafts are becoming smaller and smaller. UNM, NMSU and New Mexico Institute of Mining and Technology have all developed space programs that conduct research and technology for future space missions. Dr. Hall suggested that the program would benefit from an investment of \$250,000 every year for the next five years in order for the program to become self-sustaining.

Questions

One of the committee members asked Dr. Hall what the outcome would be if the state invested money in the Venture Space program. Dr. Hall stated that, if successful, the program would generate growth and other developments for space exploration and would help to advance technology industries in New Mexico.

Another committee member recommended that if the project seeks funding through an appropriation, a clear correlation would need to be drawn between the project and Spaceport America.

Dr. Hall emphasized to the committee that Venture Space offers a unique opportunity for New Mexico. With the paradigm shift from larger, bulkier space shuttles to smaller space shuttles for commercial use, the state could potentially become the nexus for constructing smaller satellites. Both Dr. Hall and his colleague stressed that New Mexico should take advantage of this proposal and finance the endeavor. Construction of the satellites proposed by the project within the state would help fill a gap between technology research and actual production that is most often outsourced to other states.

A committee member suggested that an actual business plan for the project be developed and include all aspects of, and necessary steps in, making this ambitious endeavor a reality.

MainStreet Communities in New Mexico

Rich Williams, director of New Mexico MainStreet, presented an update to the committee of ongoing and upcoming economic development events in rural communities across the state. New Mexico MainStreet is an accredited and licensed program through the National Trust and was

recently granted \$500,000 by the State of New Mexico for its Frontier Community program. The Office of the Governor also recently announced that 16 rural communities had applied to be funded as frontier communities. Qualifications for the program include a population of fewer than 7,500 residents and demonstrated infrastructure construction or revitalization and other economic development needs.

Mr. Williams emphasized that although undervalued, volunteers are the driving force that allows New Mexico MainStreet to achieve its goals. The National Trust board is in the process of examining and reevaluating the accomplishments and long-term investments of New Mexico MainStreet.

Linda DeMarino, president of Truth or Consequences MainStreet, presented the success story of the downtown revitalization in her community. She highlighted how New Mexico MainStreet helped to facilitate that initiative. Ms. DeMarino and other local business leaders contacted New Mexico MainStreet and were able to use capital outlay funds and grants to revitalize the Truth or Consequences downtown area. The largest project included the downtown master plan that encompassed improvements such as the replacement of exterior furniture and cultural art displays.

Carrie D. La Tour, chair of the New Mexico Coalition of MainStreet Communities, presented a success story of a downtown revitalization project in Las Cruces. Using capital outlay funding, the community has attracted and promoted public and private investors to reinvest in their local community. There are currently 23 MainStreet projects in either phase two or phase three of construction, but some have been postponed due to lack of funding. MainStreet will be seeking an additional \$3.5 million in fiscal year 2015 for ongoing projects and to construct an arts and cultural district in a downtown area.

Questions

One of the committee members requested a list of the ongoing projects that are under construction in Las Cruces and those projects that have already been completed. Ms. D. La Tour provided all members of the committee with a brochure illustrating all of the projects that are either completed or under construction.

Another member of the committee asked Mr. Williams how many frontier communities had road development issues or funding requests. Mr. Williams stated that four of the communities are facing road-related issues and that curb and gutter installation is also a concern.

A member suggested that a bill be drafted to revise the Local Economic Development Act. Another member requested that the EDD provide the committee with information on the return on the state's investment in the revitalization programs.

Adjournment

There being no further business before the committee, the third meeting of the ERDC for the 2013 interim adjourned at 12:30 p.m.