

MINUTES
of the
ECONOMIC AND RURAL DEVELOPMENT AND TELECOMMUNICATIONS
COMMITTEE

October 14-15, 2004
New Mexico State University Regents Room
Las Cruces

The meeting of the Economic and Rural Development and Telecommunications Committee was called to order as a special subcommittee by Representative Mary Helen Garcia, chair, at 10:15 a.m. on October 14, 2004.

PRESENT

Rep. Mary Helen Garcia, chair
Rep. Jose A. Campos (10/14)
Sen. Mary Jane M. Garcia
Rep. Andy Nunez

ABSENT

Rep. Richard Cheney
Rep. Daniel R. Foley
Sen. Phil A. Griego
Sen. Clinton D. Harden, Jr.
Sen. Carroll H. Leavell
Rep. Patricia A. Lundstrom
Sen. John Pinto
Sen. William E. Sharer
Rep. Richard D. Vigil

Advisory Members

Rep. Dianne Miller Hamilton
Rep. Debbie A. Rodella (10/14)
Rep. Harriet Ruiz

Sen. Ben D. Altamirano
Sen. Dianna J. Duran
Rep. John A. Heaton
Rep. Ted Hobbs
Sen. Stuart Ingle
Sen. Timothy Z. Jennings
Sen. Raymond Kysar
Rep. Pauline J. Ponce
Rep. Nick L. Salazar
Sen. Leonard Tsosie

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

Guest Legislator

Sen. Mary Kay Papen (10/15)

Guests

The guest list is in the meeting file.

Staff

Gordon Meeks

Larry Matlock

Thursday, October 14

ECONOMIC DEVELOPMENT DEPARTMENT INITIATIVES

Secretary of Economic Development Rick Homans outlined the department's legislative agenda for the next session and introduced his accompanying staff. Secretary Homans said that current statistics show that as the national economy is picking up, New Mexico is holding its own. He said New Mexico is in the top 10 states for job growth and that personal income is growing. New Mexico tends to stay ahead of the national averages in these statistics when the economy is down and tends to lag behind the national economy in up years. The current statistics seem to indicate that this trend is changing, he said. He said that the factors that may be causing this change are increased aviation manufacturing jobs, film productions and technology.

The governor's legislative initiatives this year will include:

- \$2 million dollars for the Main Street programs;
- \$600,000 for the enterprise development program in disadvantaged communities such as those in Grant, Luna and Taos counties;
- repealing the sunset date of and to make permanent the rural jobs tax credit;
- amending the job training incentive program to allow it to be used for training film and digital media professionals;
- amending existing tax credits for film producers to encourage the location of pre- and post-production work for filmmakers;
- providing a three-year tax holiday for research and development phases of companies;
- providing a gross receipts deduction for companies that refurbish airplanes of 16,600 pounds or more;
- exempting from gross receipts tax liabilities those companies involved in airplane maintenance when the product is delivered in New Mexico;
- capital outlay of perhaps \$100 million for construction of the spaceport in Dona Ana County; and
- creation of the spaceport authority.

He also testified that the department is developing an internal spreadsheet with a more precise forecast for the appropriation request for the job training incentive program. The budget for that program needs to make sense and be based on real assumptions, he said. It will probably be between \$3 million and \$6 million.

He told the committee that the Economic Development Department (EDD) is a significant tool for rural New Mexico. It is essential for rural communities to be incorporated in the effort to recruit businesses to their communities.

Finally, he said, efforts to bring alternative business financing into rural communities are being made because it is difficult to attract conventional financing. He said that in 2003, the legislature passed the Statewide Economic Development Finance Act, which gives the New Mexico Finance Authority the ability to bridge gaps in financing businesses in rural areas. However, it was not funded in 2003, and the act needs to be funded now, he said.

Questions and comments from the committee dealt with:

- the cost to the state budget of tax incentives;
- whether companies that receive tax incentives stay in New Mexico;
- aviation manufacturing infrastructure needed to keep a company here;
- competition for business investment between Dona Ana County and Albuquerque;
- the state's emerging space industry;
- creation of an aerospace engineering program at New Mexico State University;
- criteria for the Main Street program money;
- the Taos entrepreneurial development program;
- retirees coming in to a community that they do not want to change while the people that have lived there for years want it to get better and grow;
- the number of jobs created by the rural jobs tax credit;
- the EDD's plan for basic infrastructure;
- the need for unincorporated communities to be eligible for the Main Street program;
- a media center and a high-tech science center in the Santa Fe area to exhibit products invented in New Mexico to small business people who come to New Mexico;
- whether rural communities can compete and beat the metro areas for companies that require high-speed internet access and other communications abilities; and
- the educational system.

BORDER DEVELOPMENT

Rudy Garcia, director of the Mexican Affairs and Trade Division of the EDD, said that main streets are different in Mexico. He said that business with Mexico is based on relationships. There are new leaders at the municipal and state levels in Mexico. The goal of his office is to increase trade, and to accomplish that, he said relationships need to be established in order to raise the awareness of New Mexico within Mexico. The ad campaign, "Borders Not Barriers", therefore, is an example of the effort, he said.

Jaime Campos, director of the New Mexico Border Authority, gave the committee a report on commercial activity with Mexico this year. Trade amounted to more than \$1 billion in commerce between Mexico and New Mexico. Most exports are in used vehicles and most imports are automotive parts. He said that Santa Teresa has become a popular alternative crossing to El Paso because of highway improvements. The recent U.S. Department of Agriculture restrictions created a problem but the long-term trend is for more business. For example, one morning in Columbus, there were 40 trucks loaded with chile that could not cross into the U.S. Fortunately, that morning everyone was in the monthly meeting and afterwards went back to their offices to call the secretary of agriculture, the Border Authority of Mexico City, Mexican affairs and the Mexican consulate, he said. In less than 24 hours, the efforts paid

off, particularly through the influence of New Mexico's senators and Secretary Homans, and the U.S. Department of Agriculture rescinded its decision and opened the border.

He gave a summary of border business, telling the committee that Columbus has declining trade because of cattle. He went over some of the conditions that contributed to the loss of cattle business there, mostly prices and fears of mad cow disease.

He said his office is working to try to improve rail crossings. Two hundred million dollars to \$300 million is needed to make the improvements in downtown El Paso and Juarez. He explained that security issues have caused delays in El Paso, which helps New Mexico.

Secretary Homans commended Mr. Campos and his staff and said trade is up to \$244 million in 2003 and, halfway through 2004, it is already at \$200 million. He concluded by saying the railyard relocation is a priority.

Questions and comments from the committee included:

- cost of the railyard relocation;
- the balance of trade with Mexico and status of New Mexico's markets; and
- how to ease border crossings for vacationers.

TELECOMMUNICATIONS COMPETITION UPDATE

Leo Baca, Charlie Marquez and John Badal of Qwest Communications addressed the committee about Qwest's legislative request this year. Mr. Badal said he is retiring from Qwest. He will be providing basic telephone services to the Navajo people. He said he enjoyed his brief stay of four years at Qwest, and gave the committee a parting view of Qwest and its issues. The telecommunications industry is one of the fastest-changing industries in the world, he said. Regulation that is slow to change is harmful to this industry because it cannot keep up. He said that the state needs permissive regulation that is broad enough to allow companies to respond to change.

Mr. Badal provided the following example of what does not work. The federal Telecommunications Act of 1996 assumed that competition would be established in a certain manner and was built on the premise that one form of company needed access to Qwest's system. Qwest spent \$3 billion on hardware, software and labor, only to find out that the most viable competition for Qwest's services was from companies that do not need the central switches where Qwest spent most of its money, these being wireless services and cable television companies. Cox Cable TV has captured 50 percent of the local business in Omaha, Nebraska, Phoenix and Tucson.

Congress and the FCC got it wrong, he said, because wireless and cable TV companies are not regulated at all. Cable TV companies are developing voice-over Internet capabilities. Companies now can get into local and long-distance services with very little investment. Voice-over Internet is not regulated like Qwest, he said. Qwest hires technicians and back office support people to install and maintain the network. When a cell phone goes dead, one calls an

800 number, or goes to a retail store and gets a new phone. When one calls customer service, it could be in New Delhi. Qwest employs New Mexicans and invests in property it owns in New Mexico. He noted that competitors have no stake in New Mexico's economy while Qwest does.

He went on to speak about his new position, saying that the Navajos have only a 40 percent rate of service. The federal government has established a Universal Service Fund for the benefit of rural telephone companies, and the rural states are encouraged to establish their own funds to compliment it. The rural western states all have rural service funds, except New Mexico. Mr. Badal said his team has been advocates of improvement to the telephone network and will be working diligently to get the Navajo Nation and adjacent rural communities reliable phone service. He then turned the discussion over to Leo Baca, director of external affairs for Qwest, Nita Taylor, director of regulatory affairs, and Charlie Marquez.

Mr. Baca said this is the first time Qwest has provided information on legislation this early before a session. Qwest has communicated with the Attorney General's Office, the Public Regulation Commission and others. He said that some folks think they are being progressive by trying to change the regulations. He hopes the commission can keep an open mind in this new environment. He described some of the competing technologies that Qwest is dealing with, such as voice-over Internet and cable TV, and that it has made extensive inroads into other telephone markets. By 2005, voice-over Internet and cable companies will be entering the market in New Mexico. He said Qwest needs regulation that provides for a level playing field because the consumer will benefit. The National Conference of State Legislatures and the American Legislative Exchange Council advocate for less regulation in the telecommunications industry.

Questions and comments included:

- the balance in the State Universal Fund;
- the Rural Extension Fund;
- the cap on eligible expenditures per customer;
- the old rate of return regulation compared to the alternative rate of return regulation; and
- the degree of consensus among affected stakeholders.

Public Regulation Commissioner E. Shirley Baca asked for recognition and made a statement. She said that Qwest has initiated discussions with the commission and the commission is reviewing statutory recommendations. As the commission reviews the situation, she said, it needs to maintain balance in the treatment of companies and consumers to ensure availability of affordable services. She said that the "equal playing field" concept really does not apply to Qwest, but she appreciated the opportunity to learn of the proposal early and to say a few words to the committee.

Mike Ripperger, the PRC Telecommunications Bureau chief, was recognized and said that he appreciates Qwest's early communications with the PRC and that staff and commissioners have been in touch with other states' regulators. He said that all states are seeking ways to

accommodate regulatory changes for those areas experiencing competition while maintaining some available affordable services.

Warren Soloman, American Association of Retired People, said he also appreciated Qwest's coming to the public early with this request.

Cindy West, MCI, said her company has had an opportunity to briefly look at these recommendations and requested the committee to allow MCI to respond to this legislation at the next meeting.

Mr. Marquez told the committee that it is Qwest's intent to continue to work with the other players to accommodate changes and have an ample comment period for anything that might be disagreeable. Hopefully, MCI will be in support of Qwest, he said. He said if there is not an agreement, Qwest will continue to pursue their changes.

Patsy Duran, Association for Commerce and Industry, said her organization supports reduction or elimination of regulation to promote fair competition.

Sam Ray, New Mexico Exchange Carrier Group, said his organization will be happy to work with them.

EMERCADO

Phil Castillo, CEO, Albuquerque Hispano Chamber of Commerce, introduced Adam Roberts. He thanked the committee for supporting the Hispano Chamber, eMercado and New Mexico Tech in the last session, during which the governor appropriated \$500,000 to build the eMercado program. It is a statewide effort impacting all communities and an advocate for small businesses to retain and stimulate job creation.

Mr. Roberts provided examples of the program's work. It is a database that houses New Mexico businesses. The program has surveyed companies for their online needs and found that employment, access to capital, e-commerce connections, the public procurement process and adequate facilities and space are the top needs of small businesses. The goal of eMercado is to engage small businesses into partnering with public and private buying agencies across the state, since a lot of those dollars are not making it to small businesses. This program will help to address technology barriers and the digital divide in order to bring New Mexico small businesses up to speed on participating in e-commerce. He distributed examples of businesses that have been helped within each committee member's district.

When a business returns a survey to eMercado, if that business is seeking new employees, eMercado will connect them with the Labor Department. A lot of small businesses need access to capital, so eMercado can hook them up with micro-lenders. The survey also asks if small businesses can process credit cards, if they are interested in city, county, federal and state procurement and if the company has adequate space. With the database, if an RFP is

coming out, such as a construction bidding process, eMercado can contact businesses in the database through fax or email and automatically get out those leads to them.

He read one testimonial from Angel Fire.

The program can be used to expand opportunities in the international marketplace. The program was able to form an international agreement and memorandum of understanding to connect with a sister city in Spain to provide the city with opportunities in New Mexico. The survey revealed 83 companies that want to do business with Spain.

Some of the statewide and national trends impacting small businesses that eMercado can help businesses respond to are: cooperative purchasing, contract bundling and use of an economic impact calculator. The latter is basically a tool for buyers to reference when making a purchasing award. The calculator can help predict how many jobs will be created, the average salary and the amount of tax revenue in the county or state that the contract will generate. It computes the community multiplier effect. The eMercado software is a tool to evaluate those benefits.

The key, he said, is to use this as an intelligence network. This program is a balance for the little guys to compete with the big national ones. Through New Mexico Tech, the program received a capital outlay appropriation last session that allowed it to build the engine. Now, eMercado is asking for money for an operating budget.

Questions and comments addressed:

- economic impact calculator availability to businesses;
- minority business participation;
- certification as a minority or women's business;
- international ISO 9000 certification;
- applicability to service businesses rather than goods;
- criteria for selection of the people that received the survey;
- the number of companies that need health benefits;
- information on anyone from Mesilla requesting help; and
- that New Mexico Tech is the fiscal agent for eMercado.

ON-SITE LIQUID WASTE REGULATIONS

Ryan Smith, Las Cruces Environmental Systems, Inc., talked to the committee about alternatives to septic tanks and the effect of environmental regulations on sales of water treatment systems. His company distributes aerobic treatment units used in place of a septic tank. These systems treat wastewater to a brown water quality to be used for irrigation and even food plants. The New Mexico Department of Environment is in the process of rewriting its regulations on water treatment systems to include alternative systems to septic tanks. Septic tanks are responsible for more pollution of ground water than all other sources combined. About 250,000 septic tanks in New Mexico are putting sewage in the ground. Ninety percent of New Mexicans get their drinking water from ground water, and New Mexico is in the worst drought

in 500 years, he said. These systems can draw economic development to rural areas, because they are used where there is no infrastructure.

Questions and discussion included:

- the cost of septic systems compared to aerobic treatment systems — \$1,000 or \$2,000 more than a septic tank;
- private systems;
- the process to break down sewage;
- capacity of the system — 500 gallons per day up to millions of gallons per day;
- amount of electricity it uses — about that of a refrigerator, or around \$9.00 per month;
- regulations for use in a garden; and
- the feasibility of having aerobic systems on lots smaller than three-fourths of an acre.

Friday, October 15

BUSINESS INCUBATORS

Nancy Mahoney, WESSTCorp, and Jennifer Craig, manager of the Las Cruces regional office of WESSTCorp, described WESSTCorp as a statewide economic development corporation aiding women and minorities. It assists small businesses to get loans and provides technical assistance. Offices are maintained in Albuquerque, Farmington, Las Cruces, Roswell and Santa Fe and an office will soon be in Gallup. She said there had been an office in Taos until federal budget cuts forced the closure of that office. The organization is presently trying to establish a mixed-use business incubator in Albuquerque to house as many as 30 companies to create jobs for low-income residents in the pockets of high poverty. The endeavor is a partnership with the city of Albuquerque. She testified that small business incubators are a proven economic development tool. Twenty years of research by the Small Business Development Association shows that:

1. for every firm in an incubator, 3.7 jobs are created per firm per year;
2. 87 percent of the firms in an incubator maintain their enterprise for five years or more;
3. 84 percent of the incubator employees stay in the community;
4. there is a 30 to one return on the investment of public money; and
5. business incubators create two more jobs for each employee hired by an enterprise in the incubator.

The same research found that the key factors to incubators' success are:

- appropriate space provided at reduced or no cost;
- the availability of comprehensive business services; and
- the development of a solid business plan to make sure that the incubator can cover the costs while providing affordable services.

Ms. Craig said that the biggest advantage of a business incubator is the support of a group.

Ms. Mahoney asked the committee to support a capital outlay appropriation for several incubators across the state and for operational funds of 25 percent of the total operating costs if the incubator has a plan and can cover the other 75 percent of its costs.

Questions and comments addressed:

- how any money for capital outlay can comply with the anti-donation clause;
- how much money is being asked for exactly and for what specific purpose — is it several million dollars?;
- the difference between capital and operational appropriations;
- the types of businesses typically housed in incubators;
- cooperation with secretary of economic development;
- cooperation with small business development programs;
- do incubators pay rent and, if so, how much?;
- transportation aspects;
- space availability at the intercultural center in Anthony;
- cooperation with Accion;
- partnering with NMSU and community colleges;
- partnering with the Commission on the Status of Women; and
- the incubator in Farmington at San Juan College.

INFORMATION OUTREACH FOR LOW-INCOME COMMUNITIES

Carmen Gutierrez, Dona Ana Advocates for Children and Families, told the committee that her organization has installed Internet-connected information kiosks in the communities of Garfield, Hatch, Rincon, Placitas and Radium Springs to bring a variety of information on public services to low-income people in need of these services.

Questions and comments included:

- the details of setting up a kiosk;
- the availability of information in Spanish;
- the locations of the kiosks; and
- the percentage of people using the kiosks.

OPPORTUNITIES AND OBSTACLES TO ECONOMIC DEVELOPMENT IN THE MESILLA VALLEY

Steve Vierck, president and CEO, Mesilla Valley Economic Development Alliance (MVEDA), told the committee that the alliance is a public-private partnership dedicated to marketing the region. He said that the alliance emphasizes relationship marketing by dealing directly with corporations and businesses. The wage trend in Dona Ana County is down, and MVEDA hopes to make improvement of that trend a priority goal. The business clusters MVEDA is targeting for recruitment are high technology, Maquila suppliers (mostly auto parts), aerospace, business and financial services and food processing. He said that the proposed Pueblo of Jemez-owned casino is driving publicity about Dona Ana County economic development right now, but that Dona Ana County has been recognized nationally as a great climate for business. *Forbes Magazine* recently identified Las Cruces as the best small

metropolitan area for business, and *Money Magazine* gave recognition to Las Cruces as a top area to locate in.

In MVEDA's efforts to assist businesses, relationships are cultivated with site selection consultants, Fortune 500 corporations, rapidly growing companies, local industries, NMSU alumni and White Sands Missile Range. The primary attributes of the region that MVEDA emphasizes are the border and climate. He said there is a significant benefit from assistance for the New Mexico Economic Development Partnership created last year by the legislature to shift economic development from the EDD to the private sector. He asked that that initiative continue to receive funding from the legislature. He also asked the legislature to support Maquila supplier recruitment, creation of the NMSU aerospace engineering department, continued funding for the spaceport and to link education with economic development. Challenges faced by economic developers are jobs going overseas and the brain drain of New Mexico graduates. Policy changes that could help improve the state's situation relative to these challenges are: reduction of the gross receipts taxes on research; development and testing activities; exemption of border residents from income taxes; increased hours at the Santa Teresa port of entry; and NMSU technology commercialization.

Questions and comments included:

- the status of Arrowhead Park Industrial Park on the NMSU campus;
- role of the Dona Ana branch campus of NMSU;
- Verde Group's joint authority with Dona Ana County and Sunland Park;
- Rio Grande natural gas;
- requiring employee benefits such as health insurance in order for companies to qualify for state work force training money;
- the federal government's responsibility for hours at the Santa Teresa port of entry;
- a cheese plant in Dona Ana County;
- weak links between laboratories and business; and
- health care insurance coverage of businesses receiving assistance from MVEDA.

Representative Garcia recommended that the committee send a letter to NMSU to see what the other universities are doing to promote economic development of Institute Park.

ENTREPRENEURIAL INFRASTRUCTURE

Webb Johnson, Next Generation Economy, told the committee that Next Generation fosters industry clusters in order to establish supply trains that generate expanding economies. The clusters Next Generation is targeting for New Mexico are: biological sciences, artisan enterprises, microsystems, government services, aerospace, digital media, agricultural technology, energy, information technology and optics. He showed a model flow chart of the typical profile of a rapidly growing company. Next Generation is partnering with private equity venture capitalists, regional development corporations, councils of governments, universities, small business development centers and regional economic development organizations.

He finished his presentation by asking the committee to support an appropriation of \$85,000 for an entrepreneurial resource mapping project and the Next Connect Entrepreneurial Forum. This money will be matched by a federal grant of \$130,000.

The committee asked if providing money to Next Generation would raise anti-donation clause constitutional issues.

The chair recognized Mike Hite of NMSU, who asked the committee to support appropriations of more than \$8 million for distance learning resources. The committee asked him if other universities are participating in the effort and if high schools are being equipped for participation.

The chair said she would sponsor a letter to the Commission on Higher Education to support the request.

The committee meeting adjourned at 12:45 p.m.