

**MINUTES  
of the  
FIRST MEETING  
of the  
ECONOMIC AND RURAL DEVELOPMENT COMMITTEE**

**June 4, 2013  
Room 322, State Capitol**

The first meeting of the Economic and Rural Development Committee (ERDC) for the 2013 interim was called to order by Senator Howie C. Morales, chair, on Tuesday, June 4, 2013, at 10:07 a.m. in Room 322 of the State Capitol in Santa Fe.

**Present**

Sen. Howie C. Morales, Chair  
Rep. Debbie A. Rodella, Vice Chair  
Sen. Jacob R. Candelaria  
Rep. Ernest H. Chavez  
Rep. George Dodge, Jr.  
Rep. Mary Helen Garcia  
Sen. Phil A. Griego  
Sen. Ron Griggs  
Rep. Dianne Miller Hamilton  
Rep. Yvette Herrell  
Sen. Richard C. Martinez  
Sen. Michael Padilla  
Sen. Pat Woods

**Absent**

Rep. Nora Espinoza

**Advisory Members**

Sen. Craig W. Brandt  
Sen. Lee S. Cotter  
Rep. Sandra D. Jeff  
Rep. Georgene Louis  
Rep. Patricia A. Lundstrom  
Rep. James Roger Madalena  
Sen. John Pinto  
Rep. Patricia Roybal Caballero  
Rep. James E. Smith  
Rep. Thomas C. Taylor  
Rep. Monica Youngblood

Rep. Zachary J. Cook  
Sen. Timothy M. Keller  
Sen. Carroll H. Leavell  
Sen. Mark Moores  
Sen. Mary Kay Papen  
Rep. William "Bill" R. Rehm  
Rep. Nick L. Salazar

**Staff**

Monica Ewing, Staff Attorney, Legislative Council Service (LCS)  
Tessa Ryan, Staff Attorney, LCS  
Abby Wolberg, Law Student Intern, LCS

**Guests**

The guest list is in the meeting file.

**Handouts**

Copies of all handouts are in the meeting file.

**Tuesday, June 4****Call to Order**

Senator Morales called the meeting to order at 10:07 a.m., welcomed the committee and members of the audience and asked committee members and staff to introduce themselves.

**Programs and Legislative Priorities of the Economic Development Department (EDD)**

Jon Barela, secretary of economic development, began his presentation with the Programs and Legislative Priorities of the Economic Development Department PowerPoint handout. (See handout marked Agenda Item 2.)

First, Secretary Barela discussed the Jobs Training Initiative program (JTIP), which provides financial incentives to companies that create jobs in New Mexico. The program has been around since 1972, is responsible for 51,000 jobs and has been duplicated by other states. JTIP funding levels fluctuate by year, and it would benefit the program to have predictable funding. He suggested creating an "evergreen" fund for JTIP, revising the funding from nonrecurring special appropriations to recurring funding in the department's base budget. He explained that JTIP applies to all employers, regardless of the number of employees, and the incentive money goes through an extensive auditing program that has a high level of transparency.

Second, Secretary Barela suggested bolstering funding for the existing MainStreet program, one of the most successful MainStreet programs in the country. The MainStreet program, as well as the newly added Frontier Communities program, help to provide gross receipts tax revenue, jobs and better quality of life for rural residents. He described the programs' latest efforts to renovate old theaters and suggested expanding the plaza renovations program and the Native American MainStreet program, the first of its kind.

Secretary Barela explained that the MainStreet program is experiencing a backlog of \$70 million in capital and infrastructure economic development priority projects within municipally adopted district master plans. He suggested that a proposed \$5 million in capital outlay for priority economic development projects in the district master plan would help to address the backlog. He noted the MainStreet program received no capital outlay funding in fiscal year (FY) 2012 or FY 2013.

He also suggested the doubling of state historic tax credits for eligible commercial properties in MainStreet districts from \$25,000 to \$50,000. He noted that the credits have not

been changed for some time and that the increase would give business owners in rural New Mexico an incentive to renovate their historic and cultural properties. He also suggested that the credits should be made transferable.

Third, Secretary Barela recommended capital outlay funding for Local Economic Development Act (LEDA) projects. He noted that Texas has hundreds of millions of dollars in its closing funds, which helps encourage businesses to expand or relocate to that state. He gave two examples of recently closed deals: 1) the \$35 million deal between Apple and the State of Texas, which led to the creation of 2,000 high-paying jobs in Austin; and 2) the \$75 million package deal IBM made with Louisiana to relocate its operations to Baton Rouge. He noted that New Mexico was a semifinalist in the deal with IBM. He requested an additional \$10 million in funding for LEDA projects.

Fourth, Secretary Barela asked that the committee consider an aircraft services gross receipts tax deduction. He said that New Mexico civil and commercial pilots have been going to other states like Colorado, Arizona and Texas to have repairs made to their aircraft because those states have lower gross receipts tax rates than New Mexico. As a result, New Mexico loses jobs in rural parts of the state.

Lastly, Secretary Barela noted that the legislature ran out of time in the 2013 session to address a deduction from the gross receipts tax for services related to directed energy. He said that New Mexico is the epicenter of directed energy research and that he would like to ensure the state is also the place chosen for manufacturing directed energy products. He noted that this is a rapidly expanding area and that a higher gross receipts tax can determine the outcome of a bid for related contracts.

## **Questions**

A committee member asked what the top five growing industries in New Mexico are. Secretary Barela responded that transportation, manufacturing, back-office operations and energy are the top industries in terms of growth and that high-tech industries are making a rebound. He also said that New Mexico is experiencing its best jobs growth since 2008 and the state has experienced three consecutive months of job growth. A committee member followed up by asking how much money, proportionally, went to those five industries and noted concern that New Mexico should spend its funds in the state's thriving industries. Secretary Barela explained that JTIP-eligible companies probably exist in each of the five industries and also noted that a large portion of funding was allocated to the value-added agriculture industry.

In response to a question related to JTIP funds, Secretary Barela said that there is a very high rate of job retention among JTIP-funded companies and that companies that receive JTIP funds must create jobs that exist for at least one year in order to be eligible for JTIP.

Regarding the MainStreet program, a committee member asked who is responsible for marketing an area once it is renovated using the program's funds. Secretary Barela said that cities and the Tourism Department provide marketing for MainStreet areas, and he noted that the most

effective marketing comes from local advertising.

A committee member inquired about how the viability of LEDA requests is determined and whether job creation is part of that determination. Secretary Barela said that a matrix and formula are used to gauge viability of projects and extra points are awarded for certain projects. The projects are well vetted and analyzed closely. The EDD tries to address concerns about LEDA funds objectively and transparently.

A committee member asked about the dollar value of jobs created through incentive programs. Secretary Barela explained that the value varies and that rural community jobs are more expensive to create and fewer of those jobs are created by companies. He said that there is no set dollar amount for the jobs created but estimated the minimum cost per job is about \$50,000. Secretary Barela explained that a list of all LEDA projects is on the EDD's web site and that he could also communicate that information directly to the committee. A committee member asked whether the secretary could quantify the number of jobs created through current initiatives of the department. Secretary Barela explained that the department has information about every JTIP-related job, and he reiterated that in order to qualify for JTIP, a company has to create new jobs. Secretary Barela estimated that hundreds of jobs were created in 2012 through the MainStreet program.

When asked how many negotiations the department currently has under way, Secretary Barela responded that he has seen a spike in leads from all around the state in the last two months.

In response to a question about how the EDD can help struggling small businesses in rural and unincorporated areas of the state, Secretary Barela encouraged such businesses having difficulties with tax or licensing issues to contact the department for assistance. He said that the department is seeking resources to help create a "one-stop shop" in the department to assist business owners on a variety of issues.

A committee member noted that several legislators recently visited Taiwan and while there, they spoke with a Taiwanese coordinator who had some difficulty communicating with the EDD. The member asked that the coordinator's comments be investigated and requested the department to report back to the committee about the issue. The member also expressed the committee's interest in having the secretary or a representative of the department at the committee's interim meetings to address any issues involving the department that might arise at meetings. The secretary stated that the department would investigate the issue related to communications with Taiwanese representatives and that the department's staff would be in communication with legislative staff.

A committee member asked for clarification on directed energy. Secretary Barela explained that directed energy is a technology that uses sound or light waves to do such things as disable objects on a battlefield. He said there are a number of civilian applications for the technology as well.

In response to a question, Secretary Barela explained that capital outlay funds for the MainStreet program are set aside from a specific capital outlay fund.

A committee member expressed concerns about a number of gross receipts tax-related bills and suggested that the state's tax system could be improved. Secretary Barela commented that New Mexico's tax code is complicated and includes a very large number of deductions. He added that the gross receipts tax generates a lot of revenue for the state, but in order to be more competitive, the state might consider lowering the gross receipts tax rate.

In response to inquiries, Secretary Barela said he could provide information on the Frontier Communities program to the committee.

Secretary Barela commented that the spaceport is a \$209 million asset he believes will provide a good return for New Mexico in time. He said that the state was losing opportunities before the Space Flight Informed Consent Act was passed, and records indicate that some of that business was lost to Texas.

A committee member asked for an update on the road to the spaceport, which is currently being upgraded. Wade Jackson, general counsel for the EDD and for the spaceport, said that paving of the road is not yet under way but that a layer of asphalt is being laid on the road.

In response to a question about the EDD's relationship and communication with the Tourism Department, with respect to the EDD's planning, Secretary Barela explained that there is a lot of overlap in the work of the two departments and that communication between them is good.

A committee member asked how New Mexico's work force is marketed to companies like IBM. Secretary Barela offered that New Mexico has one of the best community college systems and noted that the state's four-year institutions do a fine job of preparing students for jobs. He also said that a hidden economic development tool for the state is the lottery scholarship because it is a huge incentive to be able to tell companies that New Mexico students have that financial resource.

A committee member inquired about how the EDD ensures that small communities and tribes are involved in film productions in the state. Secretary Barela responded that the department encourages studios to take a look at all parts of the state, but the costs associated with film production increase as a production moves farther from an actual film studio. The committee member then asked whether the wild fires taking place in New Mexico have hurt the film business in the state. Secretary Barela said that, to his knowledge, they have not.

A committee member noted that New Mexico's tax structure is an issue for new companies and large and small businesses already located in the state. Secretary Barela responded that taxes and regulations have a lot of influence on all business decisions.

In response to a question about the relationship between the department and local

economic development offices, Secretary Barela explained that there is a partnership there and that leads are often generated in the EDD, which then sends out requests to various communities to bid on the opportunities. He also noted that communities also receive leads and communicate those leads to the department.

A committee member asked how JTIP candidates can be qualified to receive funds. Secretary Barela said that the department tries to treat taxpayers' money judiciously and the EDD performs due diligence to make sure a potential JTIP deal is sound. He also expressed the department's need for a claw-back possibility.

A committee member asked what the fiscal impact would be from doubling the state historic tax credits for eligible commercial properties in MainStreet districts. Secretary Barela said the fiscal increase would be about \$100,000.

### **New Mexico True: Initiatives, Legislative Priorities of the Tourism Department**

Jordan Guenther, digital media director, Tourism Department, began by saying that the Tourism Department delivers a three-to-one return on investment. One of the department's recent goals is to encourage summer as well as winter travel to New Mexico, and the department's New Mexico campaign is designed to benefit both metropolitan and rural areas in the state. The department is responsible for starting the "industry toolkit" that includes free advertising templates with fonts and logos and that gives all industries access to an extensive video and photo library that will give businesses the ability to create world-class advertising that would otherwise be very expensive.

Mr. Guenther also described the community outreach activities of the department that have allowed the department to travel around state and see what communities have to offer. Secretary of Tourism Monique Jacobson attends each of the department's New Mexico True tours personally. The department maintains a Facebook and Twitter presence and sends information to its social media followers in order to encourage tourism in featured areas. The free advertising on the department's web site is helpful to communities and businesses. The department's web site averages 1.4 million views per year. There has been a 300% increase in the web site traffic of businesses that receive viewers directed from the department's web site.

The Tourism Department is working with the New Mexico Film Division of the EDD in order to make film trailers that advertise all of the places where films have been made in the state. The Tourism Department is also working to advertise more in other states. The New Mexico True story submissions have exceeded the department's expectations and have been submitted by New Mexicans and visitors to the state. Upcoming New Mexico True advertisements will relate to actual events in order to correct common misconceptions about New Mexico.

Mr. Guenther proposed increasing the department's budget to \$450,000 for FY 2014 and increasing the budget for marketing boards across the state because they are able to market their respective regions better than other groups.

Lansing Adams, financial manager and legislative liaison, Tourism Department, announced that the Tourism Department decided to engage the six regional tourism boards across the state and have them rank their top three tourist attractions and projects. These ranked attractions and projects will be presented with impact reports to the Tourism Department.

Mr. Adams explained that tourism is an economic development industry that creates jobs. New Mexico's tourism industry has seen over 2% job growth every month, which amounts to over 1,800 jobs a month that the leisure and hospitality industry is adding to New Mexico's economy. This form of job creation is concentrated in some counties.

### **Questions**

A committee member asked how New Mexico compares to other states with respect to investments into and commitments to tourism. The Tourism Department representatives responded that the department is trying to shift funds toward direct marketing and is investing half of the department's budget in advertising.

A committee member mentioned that the Tourism Department does not have any kind of fund like the EDD's LEDA fund and noted that tourist attractions need specific infrastructure in order to advertise and promote those attractions to ensure that the attractions are readily available and safe for patrons. The member suggested that a special fund for tourism infrastructure, similar to EDD's LEDA fund, should be established.

A committee member who was part of the delegation that traveled to Taiwan noted that other states provide brochures in other languages and that business partners in Taiwan asked the delegation for translated New Mexico brochures.

Another committee member brought up the new direct flight that exists between Albuquerque and New York and asked how the Tourism Department might work to establish the state in the New York market. The presenters explained that the New York market is an expensive market to access, especially when advertising extremely focused messages.

In response to a question regarding how Native American tribes are involved in regional boards and whether there are fees to be a part of those boards, the presenters noted that there is no fee to be associated with the boards and that some boards do have sitting Native American representatives. The department also works closely with Mark Trujillo, the tribal liaison for the Tourism Department.

In response to a question from a committee member, the presenters explained that the use of the department's advertising asset library is free and users can log in to the library with a user name and password.

A committee member asked what the return on investment was for the Tourism Department. The presenters responded that last year's return was \$3.6 million and that more specific details are available from department. The committee member asked whether the

department expects that return to increase, and the presenters reiterated that they are confident in the department's three-to-one return and that they could provide more specific information to the committee.

A committee member inquired whether advertising for New Mexico tourism could be targeted to Chicago and New York City. The presenters said that the department is advertising in Chicago. The presenters noted that a \$2.5 million budget would allow the department to access the San Diego market as well, but that the department is looking into whether a digital message could be used in that market because it is cheaper but effective.

### **2013 Legislative Session Summary — Ms. Ewing and Ms. Wolberg**

Ms. Ewing and Ms. Wolberg gave a brief review of 2013 economic development-related legislation. (See handout marked Agenda Item 5.)

### **Review and Adoption of Interim 2013 Work Plan and Meeting Schedule**

The committee discussed its proposed interim work plan. Ms. Ewing identified several items and areas for the committee to consider addressing during the interim. In addition to approving each of the items on the proposed work plan, the committee agreed to include the following items for the work plan, to be presented to the New Mexico Legislative Council for approval:

- the Taxation and Revenue Department's report on the impact of 2013 legislation on economic development and employment in the state and the effects of the passage of House Bill 641 in the 2013 session;
- the activities and recent initiatives of Spaceport America;
- individual development accounts and possible related legislation to be proposed;
- the programs of the New Mexico Aviation Aerospace Association, including the Education Alliance;
- the impact of oil and gas ordinances and regulations on the state's revenues;
- the EDD's report on tax credits and other incentives offered by the state and the relationship between those incentives and job creation in the state; and
- the development of designated areas within Albuquerque, including the Route 66 corridor.

The committee voted to limit all out-of-town meetings to one location. The committee also voted to visit Truth or Consequences on August 5-6, 2013 and to visit Spaceport America at that time. It also voted to visit the Pueblo of Santa Clara on October 10-11, 2013. Finally, the committee decided to meet in Ruidoso for its September 12-13 meeting.

### **Business Development — Business Incubators**

Marie Longserre, president and chief executive officer, Santa Fe Business Incubator, presented to the committee on business incubators and reviewed facts about business incubators from materials she provided to the committee. (See handouts marked Agenda Item 4.) She said business incubators, as a model, work and help to create thousands of jobs. A successful incubator will be located in a place with local champions of the model, an entrepreneurial spirit

and community cooperation. Incubators work closely with the EDD, and funding is important to ensure that the incubators can do their important work.

Ms. Longserre said that starting businesses is not easy and many business people lack the necessary skills to start a business. Business incubators provide important business mentoring programs and infrastructure to businesses. Incubators can provide a beginning point for businesses and help them move from holding business meetings in owners' dining rooms to holding them in a corporate office conference room. Incubators also provide a business-friendly ecosystem in which entrepreneurs share information, conduct business together, create new businesses together and help each other. In places where communities are involved in the building of incubators, there is a higher retention rate of businesses because communities devote energy toward a business's stability through cooperation.

Ms. Longserre noted that, in 2008, the United States Department of Commerce found that incubators create jobs at far less cost than any other government investment and incubators create 20% more jobs than community infrastructure projects. In New Mexico, there are six active incubators. The business incubator model is relatively new to New Mexico, between 20 and 30 years old, but in 2002, business incubators in the state produced a 50-to-one return on investment. Ms. Longserre expressed her love for the work she does and said that a survey of business incubator managers like herself indicated a 95% job satisfaction rate.

### **Questions**

A committee member asked what sort of expertise and funding a person would need to start an incubator. Ms. Longserre explained that funding does not guarantee success, and although there are general guidelines to an incubator's success, each incubator is unique. There is help for people who want to start incubators, and there is a business incubator certification through the EDD.

Ms. Longserre said that a successful incubator will assess the sustainability of a market, but unsuccessful incubators are not helpful to a community. It is important to help incubators succeed using knowledge of best practices derived from studies on building successful incubators.

A committee member asked what can be done to help expand incubators across the state. Ms. Longserre said that incubators are struggling because both public and private funding sources have waned recently. She said that ensuring that incubators have resources requires the sponsorship of viable programs. Incubators can leverage those programs and encourage expansion of incubators in other parts of the state.

A committee member said that the important thing about the state's incubators is that each of them is different and there is no one model for how to build an incubator. Once an incubator is created, its success and operation are specific to each community. This is important because it means they do not all have the same structure or the same funding. Business incubators are a good example of a successful public-private partnership.

Another committee member noted that business incubators are an example of how legislators and the private sector can get involved in a microlending program. She said that microlending attracts private lending because when the public sector agrees to dedicate funding, the private sector is willing to take a risk in allocating funding because the public sector is involved as well. The private sector is attracted to these sustainable and small programs. Perhaps businesses could be matched with local banks to help encourage other funding sources.

### **Adjournment**

There being no other business before the committee, the meeting was adjourned at 2:45 p.m.