

**MINUTES
of the
FOURTH MEETING
of the
JOBS COUNCIL**

**September 12-13, 2016
Carpenters Local Union Hall
Albuquerque**

The fourth meeting of the Jobs Council (council) was called to order by Representative Don L. Tripp, co-chair, at 9:20 a.m. on September 12, 2016 at the Carpenters Local Union Hall in Albuquerque.

Present

Sen. Mary Kay Papen, Co-Chair
Rep. Don L. Tripp, Co-Chair
Dale Armstrong
Vicente Alvarado
Terry Brunner (9/12)
Terri L. Cole
Jason Espinoza
William F. Fulginiti (9/12)
Rep. Harry Garcia
Rep. Roberto "Bobby" J. Gonzales
Justin Greene
Steven Kopelman
Rep. Sarah Maestas Barnes
Sherman McCorkle
Sen. George K. Munoz (9/13)
Sen. Michael Padilla
Alex O. Romero
Sen. John C. Ryan (9/13)
Sen. Michael S. Sanchez (9/13)

Absent

Scott Bannister
Sen. Pete Campos
Sen. Stuart Ingle
Rep. Tim D. Lewis
Eric Witt
Sen. Pat Woods

Advisory Members

Rep. David E. Adkins
Rep. Alonzo Baldonado
Sen. Carlos R. Cisneros
Rep. Kelly K. Fajardo
Rep. Bealquin Bill Gomez
Rep. Larry A. Larrañaga
Rep. Bill McCamley
Sen. Howie C. Morales (9/12)
Rep. Debbie A. Rodella

Rep. Cathrynn N. Brown
Sen. William F. Burt
Rep. Stephanie Garcia Richard
Rep. Yvette Herrell
Rep. Conrad James
Sen. Steven P. Neville
Rep. Patricia Roybal Caballero
Sen. William P. Soules
Rep. Monica Youngblood

(Attendance dates are noted for members who did not attend the entire meeting.)

Staff

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

Jeff Eaton, Fiscal Analyst, LCS

Mark Edwards, Drafter, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Monday, September 12

Call to Order

Representative Tripp called the meeting to order at 9:20 a.m.

New Mexico Oil and Gas Report

Peyton Yates, president, Santo Petroleum, presented, as follows, information on the petroleum and natural gas extractive industry in New Mexico. Approximately 30% of the state General Fund revenues are generated by this sector. Most of this is due to oil extraction, and most of that activity occurs in the southeastern part of the state in the Permian Basin.

The effects of technology and commodity prices influence employment in New Mexico. From 1999 to 2010, an average of about 60 million barrels of oil were extracted in the state each year. This was during the time of conventional (vertical), not horizontal, drilling. The financial crisis and falling oil prices reduced the amount extracted. Meanwhile, hydraulic fracturing, or "fracking", which is actually an old technology, was joined with horizontal drilling, and the volumes of extractable oil increased immensely. High oil prices drove technological developments. At the peak of drilling in mid-to-late 2014, more than 100 rigs employed more than 20,000 people. Since 2014, when oil prices plummeted, there have been fewer drilling rigs in operation. From 2014 to 2016, New Mexico went from 106 to 24 rigs, with oil processing falling from over \$100 per barrel to \$43.00 per barrel. This has caused huge job losses in southeast New Mexico. The result of the drilling activity added 6,600 wells in New Mexico. Nonetheless, New Mexico is better off than it was in 2010 (the year of the last market downturn) because many people are employed to maintain the 6,600 wells in the state, many of which were added during the peak drilling period. Notably, many companies in the industry that borrowed money to support their growth are facing significant financial trouble.

Mr. Yates presented a graph showing, over time, the volumes of oil extracted in New Mexico. That extraction peaked at 130 million barrels and has begun to decline. The decision of

companies to drill new wells depends on oil prices and the economy. Many companies have become more efficient and can still profitably extract oil at the \$40.00-per-barrel price.

A member commented on New Mexico's dependence on the extractive industries and noted that other states, like Texas, have expanded their economies to reduce such a dependence. When asked what he sees as opportunities for New Mexico to do the same, Mr. Yates questioned whether New Mexico has become too dependent on the federal government and suggested that the answer might lie in promoting entrepreneurship and an atmosphere conducive to job creation. A member observed that other states do not have permanent funds like New Mexico does, yet their economies have recently grown faster. When asked for his opinion of the difference in the business climates of Texas and New Mexico, Mr. Yates remarked that, in Lubbock, Texas, for example, one can build at a lower cost. Mr. Yates also said that starting a business is easier in Texas, citing an example of an entrepreneur in Carlsbad who faced complicated regulatory obstacles to opening a restaurant.

A member suggested, and Mr. Yates agreed with the suggestion, that New Mexico's outlook is brighter than that of many other oil-extraction states, given that many of the new oil wells in the country have been established in the Permian Basin. In response to a member's question of whether Iraq has oil tankers filled with oil and parked offshore, Mr. Yates replied that he did not know. He added that the Middle East needs higher oil prices and that the United States needs to encourage the development of its own energy resources.

A member asked whether those who have lost jobs in the extractive industry possess skills that they can apply to jobs in another sector of the economy. Mr. Yates responded that retraining oil field workers is possible, and he cited as an example geologists who have moved into the environment and renewable energy fields.

Next Steps for the Council

Mark Lautman, lead program consultant, and director, Lautman Economic Architecture, talked about the council's goals and its work over the last two years, and he reviewed the goals for the meeting. Mr. Lautman presented a graph of New Mexico's 10-year job-creation scenarios. He described the federal government jobs contraction in New Mexico and its contribution to the existing jobs contraction, and he stressed the urgency of taking measures for improving the situation. Mr. Lautman reviewed a regional assessment update, which identifies the number of jobs needed to be created.

A member remarked that the numbers shown for the mid-region of the state seem lofty and suggested that its overregulation and unfriendly business environment will cause job losses. Another member expressed concern about New Mexico's non-legislative approach to dealing with labor laws and argued that the state should enact laws to prevent municipalities from establishing overly burdensome and complex regulations to avoid punishing the many for the needs of the few. Mr. Lautman commented on the relationship between state-funded social welfare programs and job creation.

Mr. Lautman discussed information contained in a table entitled "Economic Base Job Creation Potential". He commented that: 1) the state has neither a strategy for federal government job-base expansion nor one related to jobs in the extractive and energy sector; 2) the "retirement" job sector expansion plan is being developed; 3) there is healthy job creation in the film and digital media sector, but there is no strategy for enlarging the sector; and 4) the Tourism Department needs an infusion of additional money for marketing New Mexico. Mr. Lautman presented a slide entitled "New Mexico Market Share Job Creation Transactions" and noted that New Mexico is well under its market potential; he also showed a graph comparing New Mexico in this regard to its neighboring states. Mr. Lautman noted that the slide reinforces the assertion that New Mexico is spending too little money to create jobs, in spite of its job-creation potential.

Mr. Lautman remarked that New Mexico is competitive again from a taxation standpoint and that its incentives, such as Local Economic Development Act (LEDA) awards, have benefited the state. Referring to a graph showing job creation by sector, he indicated that New Mexico can still do a better job at growing the economy.

Responding to a member's question about which states have "right-to-work" laws, Mr. Lautman remarked that the topic comes up frequently in council meetings but that it does not move forward because the council has agreed to pursue only initiatives with unanimous approval, which that initiative lacks. A discussion ensued about the merits and disadvantages of being a right-to-work state.

A member asserted that New Mexico has too much poverty, that working families need more state support and that the state's education system needs to be fixed. The member argued that addressing poverty and education are key to enhancing job creation.

Council Program Development Initiatives: Retirement, Federal Government and Solo Work

John Garcia, executive vice president, Home Builders Association of Central New Mexico, talked about spurring job creation by attracting retirees to the state. He stated that from 1998 through 2001, Conde Nast rated Santa Fe one of the top three places in the United States to visit. He said that attracting retirees to the state would help prevent flat or declining population growth. He added that one of the barriers to attracting more retirees is New Mexico's policy of taxing social security benefits. Meanwhile, in a measure of states' tax climates for retirees, Arizona and Nevada have been named as two of the best states. Mr. Garcia proposed that New Mexico change its tax system in this regard, increase its investment in the "New Mexico True" campaign and begin designating "certified retirement communities", which achieve that designation in part by meeting certain health care-related standards. Mr. Garcia added that the Home Builders Association values most highly the proposition of removing the state tax on social security benefits.

Eileen Yarborough, executive director, Cibola Communities Economic Development Foundation, briefly described her organization's "Solowork Economic Base Job Creation Pilot Project".

Update and Roundtable Discussion: LEDA and the Job Training Incentive Program (JTIP)

Therese Varela, director, Economic Development Division, Economic Development Department, gave an overview and update on the LEDA and JTIP programs administered by the department. She highlighted Solaro Energy in Socorro, a company that makes attic fans and that has been awarded both JTIP and LEDA funds. She stated that the LEDA is the "gap filler" for many growing companies and that the program requires that a funded project: 1) be "shovel ready"; 2) not be funded with venture capital; 3) not be funded with capital outlay; and 4) have a 10:1 leverage ratio. Ms. Varela enumerated the amounts appropriated by the legislature for LEDA projects from 2013 to date. Lastly, Ms. Varela also highlighted a company called Ideum, which is located in Corrales and fabricates "touch furniture", or large LED displays that employ touch-screen technology. The company has received about \$691,000 in JTIP funding since 2006, she said.

A member stressed the importance of the LEDA and JTIP programs in attracting and retaining businesses and noted that it typically takes 18 to 24 months for a project to come to fruition. Mr. Lautman opined that \$10 million is needed in fiscal year (FY) 2017 for the programs to maintain their integrity. A member commented that, though the budget plan for the special session is very preliminary, many legislators would like funding for the LEDA and JTIP programs to stay intact; however, the consensus of legislators is that the shortfalls for FYs 2016 and 2017 must be addressed. Another member commented on the prevailing thought among lawmakers that the state should maintain at least 2% to 2.5% in its operating reserves for FY 2017 and that transferring the balance in the Tobacco Settlement Permanent Fund for solvency may be necessary. A legislative member requested that Mr. Lautman research how many jobs have been created from the \$50 million to \$56 million of LEDA funding that has been awarded.

Making State and Local Job-Creation Efforts More Accountable: A Review of Tax Expenditures, Incentives and Program Efforts

Jim O'Neill, O'Neill Consulting LLC, presented on the topic of accountability in tax expenditures and other economic development incentives and distributed a spreadsheet showing the state's expenditures in that area. He said that the state has been continually spending about \$160 million each year on tax credits, exemptions and deductions for economic development. With about \$104.4 million in economic development incentives given in FY 2016 and an expenditure total of \$315.7 million, there is approximately \$210 million in non-economic development tax expenditures, he said. The state does not know how many jobs the economic development programs created. Mr. O'Neill suggested that the state make the expenditures more transparent, in part by removing the confidentiality provisions of certain tax expenditures so that the public and the legislature can know "what we are getting for our money". Further, he remarked, having a third party collect the information is good, but not ideal, since the Taxation

and Revenue Department (TRD) is already collecting that information. A discussion ensued about pursuing a more accurate determination of the number of jobs created from the tax expenditures intended to promote job creation.

A member asked why the state does not use dynamic scoring in its analyses of proposed tax policy changes. Mr. O'Neill replied that dynamic scoring had been used previously, but when the "Richardson tax cuts" were analyzed using the tool, the result was unfavorable to the administration and the practice was discontinued. He suggested that the TRD or another agency be responsible for conducting analyses of existing tax expenditures so that their impacts can be measured and their true costs known.

Mr. O'Neill explained that the presentation spreadsheet shows what the state, but not local governments and other taxing jurisdictions, is doing in this area. Mr. O'Neill recommended that the reporting data be consolidated to more clearly depict the economic development incentives landscape and suggested as potential statutory changes: requiring reporting similar to that required by the Governmental Accounting Standards Board, statutorily defining "job creation" and "economic development", creating an office of economic planning and accountability and developing a path for implementing such changes in 2018. The council agreed to hear a presentation on such proposed statutory changes at its October meeting.

Roundtable Discussion: Council Strategy on Public-Private Partnerships, Broadband, Rural Solo Work and the October Meeting

Members divided into three groups to discuss the topics of public-private partnerships, broadband infrastructure and rural solo work.

Recess

The committee recessed at 4:20 p.m.

Tuesday, September 13

Workforce Needs and Solutions: Educational and Workforce Development Programs

Dr. Barbara Damron, secretary, Higher Education Department (HED), and Celina C. Bussey, secretary, Workforce Solutions Department (WSD), presented on workforce development through higher education and other training programs. Secretary Damron began by noting that there are 32 public higher education institutions in the state, not including the branch colleges and private institutions, and that New Mexico's system is the most decentralized system in the country. She added that while it should only take 120 credit hours to graduate with a four-year degree, in New Mexico, it takes the average student 154 credit hours to earn a four-year degree and 99 credit hours for a two-year associate degree. She noted as one reason for that difference that, often, students transfer to new institutions, but their earned credits do not count toward their degrees from those institutions. The HED is focusing on matriculation and the transfer of credits and is reviewing more than 10,000 syllabi from all public higher education institutions, she reported.

Secretary Damron reported that the cost of one course across a cohort is \$5.3 million; dual-credit programs should be well thought-out; a "GED" is now called a "high school equivalency" diploma; the state's post-secondary credential completions are slowly, but steadily, rising; higher education institutions need to become more efficient; a plan for increasing that efficiency should include an analysis of the number of people in the state who need a higher education degree; New Mexico is one of about 10 states without a degree-attainment goal; and, on September 23, the HED will have a strategic-planning summit.

Secretary Bussey reported that health care is a growth industry in the state; the manufacturing and extractive industries have been hit hard, which is causing particular economic hardship in Farmington and San Juan County; the fastest-growing occupations are in elementary, middle and high school education, physical therapy and medical and health service management; credential inflation is a phenomenon in which, more than ever, employers value educational attainment; 60% of education leaders believe degrees and credentials are absolutely essential, while only 38% of business leaders share that opinion; the skills gap, which is the gap between competency attainment and the needs of employers, is widening, according to national surveys; job-development career coaches work with students at 10 higher education institutions throughout the state; internships are very important to skills development; it is important that internships be paid to avoid excluding less affluent students; and the WSD's student-internship portal that will launch in October was developed by student interns.

Responding to a member's comment that finding qualified information technology and high-tech manufacturing hires can be difficult due to credentialing, Secretary Bussey replied that the federal government has been taking steps to consider experience along with education in its hiring decisions. Secretary Bussey expressed her belief that internships and mentoring are key to developing new talent and suggested that the state could play a role in helping companies that sponsor interns. Secretary Damron noted that the HED offers many financial aid, "loan-for-service" and structured loan-repayment plans to help people afford college and get work experience opportunities.

Secretary Bussey complimented the efforts of New Mexico State University (NMSU) in helping students gain work experience through internships and mentoring and noted that the WSD and NMSU are collaborating to establish student employment opportunities in the area so that students establish roots in the community and become less likely to leave the area or the state. A member requested that Mr. Lautman catalog the number of degrees available statewide and analyze that information in the context of the council's data-gathering results to identify job-placement opportunities. Another member commented that many in the state have financial and health problems that interfere with their ability to advance in their careers and education. Secretary Damron recognized that issue.

Secretary Bussey commented on the importance of stressing to low-income residents that education is key to income and standard-of-living advancement. Further, she said, the state can take steps to help ease the transition from dependence on social-welfare income to employment.

Responding to a member's question of whether the WSD observes many employers who pay for their employees' course work and internships, Secretary Bussey replied that some employers do pay for course work, though less so than in the past, and that internship pay varies widely.

Workforce Needs and Solutions: Employer Perspectives

Representative Gonzales and Mr. Espinoza, president and chief executive officer (CEO), New Mexico Association of Commerce and Industry, moderated a panel discussion about employer needs in the workforce. The panelists were Leann Kravitz, board member, Fidelity Investments (Fidelity); Hilario Serrano, Randall Lumber and Hardware; Paula Randall Ervin, Randall Lumber and Hardware; and Jim Spadaccini, CEO and founder, Ideum.

Representative Gonzales directed the council's attention to an *Albuquerque Journal* newspaper supplement called "Top Places to Work" (May 15, 2016). Mr. Espinoza spoke about his organization's internship offerings.

Ms. Kravitz provided background on Fidelity and its efforts to create an enriching workplace for its employees. The company entered the New Mexico market in 2008 and currently employs approximately 45,000 people. Fidelity opened a 220,000-square-foot customer service center at Mesa del Sol. The company offers its employees subsidized healthy meals, an on-site health center, matching 401K retirement fund contributions, tuition reimbursement of up to \$10,000 per year, a student-loan repayment plan, student internships and paid leave for new parents. In 2015, Fidelity employees put in over 2,000 volunteer hours and donated \$61,000 in cash and in-kind contributions. The company located to New Mexico for reasons that include the quality of the workforce, the cost of that workforce, the agreeable weather and state and local incentives. Fidelity also appreciates New Mexico's relatively large bilingual population. Overall, Fidelity has been very happy with its decision to locate to New Mexico.

Representative Gonzales introduced Ms. Randall Ervin of Randall Lumber, a family-owned company in Taos that has been in business for 95 years. Ms. Randall Ervin said that the keys to her business' success have been family, service and respect, and spoke further about the business. Randall Lumber's founder helped fix homes during World War II, and provided credit to families to build their homes. The business hosts Christmas dinners and company picnics and offers its employees health and retirement benefits, profit sharing, discounted materials and flexible work schedules. The business aims to treat everyone with respect.

Mr. Serrano of Randall Lumber said that finding good employees is difficult, but one of Randall Lumber's strengths is employee retention. Recently, an employee retired after having worked for the business for 56 years. When hiring, the company seeks out candidates with the right attitude and then concentrates on teaching those it hires the skills they need for the job. Randall Lumber strives to foster a team spirit, solidarity among its employees, good customer relations and community involvement. It further strives to provide excellent service and to offer

high-quality products. Randall Lumber was honored as the Taos "Citizen of the Year", and, though it is only a small business, it wants to do big things for its community.

Mr. Espinoza introduced Mr. Spadaccini, who said that Ideum, which sells directly to its customers and is one of the fastest-growing companies in the country, moved 10 years ago from California, where costs were high, to Corrales. The company currently occupies a 20,000-square-foot facility and is also doing some fabricating in Santa Teresa. It has received JTIP and LEDA funding and has taken advantage of state tax incentives. The company has 43 employees and five openings and has learned the value of treating employees well. Furthermore, Ideum has no outstanding debt and does not use venture capital. Ideum continues to grow and is exploring new manufacturing techniques.

A member asked the panel members in what areas they believe the state's workforce can improve. The panelists cited as answers: creativity and visual-design skills; credit scores and financial literacy; soft skills and employability, including in such areas as promptness and responsibility; abstinence from drug use; and eagerness to work. A member pointed out that, sometimes, people's credit scores suffer because of circumstances beyond their control, like getting laid off, and suggested that credit checks of prospective employees might be unfair. Ms. Kravitz noted that it is difficult for companies to distinguish between those candidates and others whose credit scores reflect financial irresponsibility. Another member commented on the prevalence of workforce issues like punctuality and an unwillingness to approach employment with a sense of responsibility. The member noted that small towns and cities experience different workforce issues and identified as a challenge the need to educate youths and families about the availability of services, internships and other programs that can help them overcome such barriers to employment.

The Need for "Soft Skills" in the Workforce

Krista Martinez, president, Junior Achievement of New Mexico (Junior Achievement); Carla Rachkowski, program manager, Accelerate New Mexico (Accelerate); and Scott Miller, president and CEO, Circles USA, spoke about their respective programs.

Ms. Rachkowski said that Accelerate is a pilot project to provide technical skill training to improve people's workforce readiness and that it focuses, in part, on teaching basic math skills and that it predominantly serves a non-white population whose age, on average, is 28. It has served 851 students in the past five years.

Ms. Martinez described Junior Achievement as an organization that partners with businesses to help build, through curricula development, the workforce of tomorrow. She said that, according to the U.S. Department of Education, one in five students will not graduate from high school. Junior Achievement coordinates and trains volunteers to go into classrooms and, by sharing knowledge and experience, teach twenty-first century skills related to communication, media and technology. The organization intends to expand its services to more communities,

spend more time in the schools it currently serves, increase awareness in the public and private sectors of its work and continue to support educators through its partnership and collaboration.

Mr. Miller said that one in three New Mexicans struggles with poverty, either "situational" or "generational". The former is a graver problem. The situation in New Mexico is such that a person earning \$6.83 per hour can be as well-off as one earning \$20.00 per hour because of the availability of social services programs whose payments can effectively make up that difference in pay. The situation, known as the "cliff effect", keeps people from taking advantage of opportunities for higher-wage jobs and job-skills training. Poverty is also driving much of the higher education dropout problem.

Mr. Lehman suggested that the cliff-effect issue is contributing to the apparent deficiency in the state of qualified workers and noted that the deficiency has grown in the last 10 years. Responding to a member's question, Mr. Miller characterized poverty as largely an economic issue and said that the United States has created a culture of poverty by focusing on satisfying people's immediate, not long-term, needs. He stressed that helping people move permanently out of poverty is more critical than simply helping feed those in poverty.

Issues in Workers' Compensation

Quinn Lopez, vice president and general counsel, New Mexico Mutual, and Thom Turbett, president-CEO, Independent Insurance Agents of New Mexico, discussed workers' compensation-related topics as follows.

New Mexico has a relatively low concentration of people and, as such, is not a very lucrative market for insurance companies. Those that transact business in the state tend to do well when the state's economy is strong and leave the state when its economy weakens. In the late 1980s, the insurance market was terrible, and the state's workers' compensation rates were very high compared with other states. Employee benefits were the richest in the nation. To address the situation, in 1990, lawmakers enacted workers' compensation reform, which included provisions to cap legal fees and create workers' compensation judge positions. In 1991, the state created New Mexico Mutual Casualty Company.

In 2000, New Mexico was one of the five states in the nation with the lowest-cost workers' compensation insurance premiums. In 2014, New Mexico was ranked number 42 in that measure. Because insurance companies in the state compete with those in other states, this cost matters. New Mexico's relatively low wages exacerbate the problem. Education, crime, workforce availability and workers' compensation insurance rates factor into the decisions of companies considering New Mexico as a place to locate their businesses. Furthermore, New Mexico is a "long tail line" state, meaning that workers' compensation claims can take several years to resolve. New Mexico is seeing a rise in the cost of claims for a variety of reasons: the view that indemnity is a form of wage replacement, and rising (8% since 2010) medical costs. Further, indemnity costs, which averaged \$28,000 in 2013, have risen due to relative benefit levels, return-to-work disincentives, case law erosion, rising medical and prescription costs,

rising litigation costs, challenges to exclusive remedy and case law that is expanding benefits. It is estimated that 10% of workers' compensation claims involve fraud or abuse. In conclusion, the 1990 workers' compensation reform was very successful, but New Mexico's system has since degraded to become the twentieth-worst in the nation.

Adjournment

There being no further business before the council, the council adjourned at 2:58 p.m.