THINK NEW MEXICO
A RESULTS-ORIENTED THINK TANK SERVING NEW MEXICANS
FALL 2013

CUT RED TAPE
BIPARTISAN IDEAS
S.T.E.M. GRADUATES

IMPROVE JOBS CLIMATE
ATTRACTION ENTREPRENEURS
ONE-STOP BUSINESS PORTAL

START

ACCELERATE GROWTH
BUSINESS GRADUATES

RECRUIT BUSINESSES
SIMPLIFY REPORTING

REFORM INCENTIVES
ENHANCE ACCOUNTABILITY

INCREASE TRANSPARENCY
PERFORMANCE-BASED INCENTIVES

DIVERSITY ECONOMY

ADDRESSING NEW MEXICO'S JOBS CRISIS

Come in We're HIRING
Think New Mexico began its operations on January 1, 1999. It is a tax-exempt organization under section 501(c) (3) of the Internal Revenue Code. In order to maintain its independence, Think New Mexico does not accept government funding. However, contributions from individuals, businesses, and foundations are welcomed, encouraged, and tax-deductible.

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About Think New Mexico

Think New Mexico is a results-oriented think tank whose mission is to improve the quality of life for all New Mexicans, especially those who lack a strong voice in the political process. We fulfill this mission by educating the public, the media, and policymakers about some of the most serious challenges facing New Mexico and by developing and advocating for effective, comprehensive, sustainable solutions to overcome those challenges.

Our approach is to perform and publish sound, nonpartisan, independent research. Unlike many think tanks, Think New Mexico does not subscribe to any particular ideology. Instead, because New Mexico is at or near the bottom of so many national rankings, our focus is on promoting workable solutions.

Results

As a results-oriented think tank, Think New Mexico measures its success based on changes in law we help to achieve. Our results include:

- making full-day kindergarten accessible to every child in New Mexico
- repealing the state's regressive tax on food and successfully defeating efforts to reimpose it
- creating a Strategic Water Reserve to protect and restore New Mexico's rivers
- establishing New Mexico's first state-supported Individual Development Accounts to alleviate the state's persistent poverty
- redirecting millions of dollars a year from the state lottery's excessive operating costs to full-tuition college scholarships
- reforming title insurance to lower closing costs for homebuyers and homeowners who refinance their mortgages
- winning passage of three constitutional amendments to:
  - increase the qualifications of Public Regulation Commission (PRC) commissioners,
  - transfer insurance regulation from the PRC to a separate department that is insulated from political interference, and
  - consolidate the PRC's corporate reporting unit into an efficient, one-stop shop for business filings at the Secretary of State's Office
- modernizing the state's regulation of taxis, limos, shuttles, and movers to promote job creation, business formation, and lower prices
Think New Mexico's Board of Directors

Consistent with our nonpartisan approach, Think New Mexico’s board is composed of Democrats, Independents, and Republicans. They are statesmen and stateswomen, who have no agenda other than to see New Mexico succeed. They are also the brain trust of this think tank.

Clara Apodaca, a native of Las Cruces, was First Lady of New Mexico from 1975–1978. She served as New Mexico’s Secretary of Cultural Affairs under Governors Anaya and Carruthers and as senior advisor to the U.S. Department of the Treasury. Clara is a former President and CEO of the National Hispanic Cultural Center Foundation.

Paul Bardacke served as Attorney General of New Mexico from 1983–1986. Paul is a Fellow in the American College of Trial Lawyers, and he currently handles complex commercial litigation and mediation with the firm of Sutin, Thayer, and Browne. In 2009 Paul was appointed by U.S. Interior Secretary Ken Salazar to serve on the National Park System Advisory Board.

David Buchholtz has advised more than a dozen Governors and Cabinet Secretaries of Economic Development on fiscal matters. David has served as Chairman of the Association of Commerce and Industry and was appointed to the Spaceport Authority Board of Directors by Governor Martinez. He is the senior member of the New Mexico office of Brownstein Hyatt Farber Schreck.

Garrey Carruthers served as Governor of New Mexico from 1987–1990 and in 2013 became President of New Mexico State University, where he had previously served as Dean of the College of Business. Garrey was formerly President and CEO of Cimarron Health Plan and he serves on the board of the Arrowhead economic development center in Las Cruces.

LaDonna Harris is Chair of the Board and Founder of Americans for Indian Opportunity. She is also a founder of the National Women’s Political Caucus. LaDonna was a leader in the effort to return the Taos Blue Lake to Taos Pueblo. She is an enrolled member of the Comanche Nation.
Susan Herter served as Chief of Staff to Vice President Nelson Rockefeller and was appointed to the President’s Commission on White House Fellows by Presidents Carter and Reagan. Susan was a founding board member of Common Cause, the North American Institute, and the New Mexico Community Foundation, where she also served as president.

Edward Lujan is the former CEO of Manuel Lujan Agencies, the largest privately owned insurance agency in New Mexico. Ed is a former Chairman of the National Hispanic Cultural Center of New Mexico, the Republican Party of New Mexico, and the New Mexico Economic Development Commission.

Brian Moore is a small businessman from Clayton, where he and his wife Linda own Clayton Ranch Market. Brian was a member of the New Mexico House of Representatives from 2001–2008, where he served on the Legislative Finance Committee. From 2010–2012, Brian worked as Deputy Chief of Staff and Washington, D.C. Director for Governor Martinez.

Fred Nathan founded Think New Mexico and is its Executive Director. Fred served as Special Counsel to New Mexico Attorney General Tom Udall from 1991–1998. In that capacity, he was the architect of several successful legislative initiatives and was in charge of New Mexico’s lawsuit against the tobacco industry.

Roberta Cooper Ramo is the first woman elected President of the American Bar Association and the American Law Institute. Roberta has served on the State Board of Finance and was President of the University of New Mexico Board of Regents. In 2011, she was inducted into the American Academy of Arts and Sciences. Roberta is a shareholder in the Modrall law firm.

* Roberta abstained from consideration of the TIDDs section found on pages 24–25 of this report due to a conflict of interest.
Dear New Mexican:

To research the economic development history of New Mexico since statehood in 1912, as we have for this policy report, is to develop a profound appreciation for those approximately 327,000 New Mexicans who lived here a century ago.

They faced serious disadvantages as the new state entered the national economy. New Mexico was relatively isolated from major population centers and lacked the capital resources enjoyed by many other states.

But these New Mexicans possessed an impressive work ethic and remarkable entrepreneurial ingenuity. As a result, were in many cases able to turn adversity to advantage. For example, they used the state’s high altitude, abundant sun, dry climate, and healing mineral springs to make New Mexico a magnet for treating those suffering from tuberculosis.

They recruited doctors and built dozens of sanatoriums from Silver City to Santa Fe. Soon these sanatoriums became an important pillar of our young state’s economy. By one estimate, ten to twenty percent of the state’s population by 1920 had come here because of New Mexico’s reputation for treating tuberculosis. (Later, many of the sanatoriums were transformed into some of the state’s largest hospitals, like Presbyterian and St. Joseph in Albuquerque, St. Mary’s in Roswell, St. Vincent in Santa Fe, and St. Anthony’s in Las Vegas.)

The state’s economy steadily climbed in the national rankings after statehood, according to statistics from the U.S. Department of Commerce. In 1919 New Mexico was 43rd in per capita income among the states, but by 1929, New Mexico had risen to 39th place. The rise continued to 37th by 1939, 35th in 1949 and 33rd by 1959.
However by 1999, only four decades later, New Mexico had plummeted to 48th in per capita income rankings. No doubt readers are familiar with the dreary parade of statistics that place New Mexico at or near the bottom of a variety of important state rankings.

Since poverty is at the center of so many of our challenges, it is clear that we need to focus on creating more and better jobs. In the following pages, Think New Mexico offers several policy proposals that can enhance efforts already underway to jumpstart job creation in New Mexico.

These policy proposals grew out of interviews over the past six months with about 100 New Mexicans, including entrepreneurs, job recruiters, business incubators, bankers, venture capitalists, business school professors, CEOs and small business owners. (They are listed in the Acknowledgments at the back of this report.)

We asked them about their own experiences and what works and what doesn’t work when building businesses and creating jobs in New Mexico. Many similar themes arose, even though they came from people with very different backgrounds—big and small business owners, rural and urban, and from all across the political spectrum. (At Think New Mexico we care a lot more about whether an idea works than whether it is left or right).

Perhaps the most frequent theme to emerge from conversations with those on the front lines is that state government should focus on creating the conditions for New Mexico entrepreneurs and businesses to succeed rather than trying to pick winners and losers.

The proposals described in this report are designed to improve those conditions, helping New Mexico again turn adversity to advantage and recapture the entrepreneurial spirit that marked the early days of the Land of Enchantment.

If you would like to join this effort, we encourage you to visit our website: www.thinknewmexico.org and contact your elected officials. Naturally, you are also invited to join the more than 900 New Mexicans who invest in our work by sending in a contribution in the enclosed reply envelope or online.

Fred Nathan
Founder and Executive Director
THE JOBS CRISIS

In early 2013, the Target Corporation announced that it would be hiring 200 people to staff its new Albuquerque store. In response, 7,000 New Mexicans lined up to apply, many of them standing for hours in the chilly January weather to submit their applications—even though only one out of every 35 would be accepted.

The applicants standing in line had about as good a chance of being hired as they had of rolling two dice and coming up with snake eyes on the first try. Around 6,800 New Mexicans returned home to their families that week still desperately seeking jobs.

“It’s tough, it’s tough,” job seeker Katherine Perea told KOB News in a July 31, 2013 interview. Perea had been out of work for four months. “There’s a lot of people competing for the same job. You go to job fairs, there’s hundreds of people there.”

Between 2007–2011, over 3,000 businesses and about 43,000 jobs vanished from New Mexico. Because new job seekers enter the market every year, New Mexico actually needs more than 101,000 jobs to return to pre-recession employment levels.

Unemployed & Underemployed New Mexicans in 2012

<table>
<thead>
<tr>
<th></th>
<th>NUMBER</th>
<th>PERCENTAGE OF WORKFORCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underemployed</td>
<td>72,999</td>
<td>7.8%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>64,576</td>
<td>6.9%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>137,576</td>
<td>14.7%</td>
</tr>
</tbody>
</table>

Source: United Health Foundation and Bureau of Labor Statistics. Underemployed persons include those working part-time who would prefer more hours and discouraged workers who have given up looking for jobs.

Making matters worse, many of the jobs that are being created in New Mexico are lower-paying than the jobs that are disappearing. Between May of 2012 and May of 2013, the leisure and hospitality industry added 3,000 jobs—but higher-wage manufacturing employment declined by 1,100.

As a result, people are beginning to leave New Mexico. The Census Bureau reported in May 2013 that most of the state’s counties had lost population during the previous year. The state’s demographer, Jack Baker, commented that: “I am very disturbed about this. What worries me most is that now we’re looking very negative on migration. More people are leaving than are coming. That’s a problem. They’re probably exploring their economic opportunities elsewhere…[and] that’s not good for us.”

Between this brain drain of talented New Mexicans, the resulting break-up of families, and the state’s worsening poverty rates, the need to address New Mexico’s jobs crisis is increasingly urgent.

The first step in charting a path out of the jobs crisis is understanding how it came about.
A (VERY) BRIEF HISTORY OF NEW MEXICO'S ECONOMY

The economic development history of New Mexico since statehood owes much to the presence of the federal government and federal spending in the state.

In fact, New Mexico's entry into the union began with a large federal investment by Congress. The congressional act of statehood provided slightly more than three million acres of federal land to New Mexico. A portion of the proceeds of the sale and lease of these public lands were dedicated to the support of our public schools. Congress also used federal land to essentially endow public universities, hospitals, prisons, the New Mexico School for the Blind and Visually Impaired and the New Mexico School for the Deaf.

At statehood, however, and up until the Great Depression, there were relatively few federal jobs in New Mexico (or the nation as a whole). The vast majority of jobs in New Mexico came from the private sector and those jobs principally involved farming and ranching, the extractive industries, and commerce brought about by the Atchison, Topeka and Santa Fe railroad, such as tourism.

That began to change during the Great Depression. Governor Clyde Tingley was a strong ally and friend of President Franklin D. Roosevelt. During his tenure as Governor from 1934 to 1938, Tingley traveled to the White House 23 times, according to the New Mexico Office of the State Historian, which notes that “having the president’s ear proved lucrative for the state of New Mexico.”

Indeed the influx of New Deal funding led to thousands of new jobs. By 1936, the Works Progress Administration (WPA) alone employed approximately 13,000 New Mexicans as writers, artists, and musicians, while other New Mexicans were hired to build schools, government buildings, and other infrastructure that can still be found across New Mexico’s landscape.

Federal job growth accelerated in New Mexico during World War II when Los Alamos National Laboratory was established as a secret scientific facility to coordinate the Manhattan Project and develop the first atomic bombs. The establishment of Sandia National Laboratories followed in 1948.

Fast forward to 2010, the last year for which we have statistics, and federal spending in New Mexico has increased substantially to approximately $27.95 billion, according to the U.S. Census Bureau. That
amounted to more than $13,500 for every New Mexican, over $3,000 more than the national average.

Today the federal government is the single largest employer in New Mexico. Federal government agencies, such as the departments of Defense, Agriculture, Interior, and Energy, employ more than 30,000 New Mexicans. The national laboratories account for another 18,500 federally-funded jobs. In addition, Cannon, Holloman, and Kirtland Air Force Bases and White Sands Missile Range employ approximately 11,900 active duty military personnel. All in all, the proportion of the labor force working in government is about a third higher in New Mexico than it is in the nation as a whole.

These numbers do not include all of the jobs in New Mexico that are indirectly supported by federal spending. The University of New Mexico’s Bureau of Business and Economic Research estimates that if those jobs are considered, federal spending supports 38% of New Mexico’s total employment.

For many decades, these government jobs had a stabilizing effect on New Mexico’s economy and helped the state to weather periodic economic recessions, as the graph on the facing page demonstrates. In fact, New Mexico generally weathered recessions better than the vast majority of other states because of its high proportion of government jobs, according to an analysis by former UNM economics professor Gerald Boyle.

Unfortunately, that trend seems to be changing. New Mexico lags far behind other western states in the rate at which it is recovering from the recent economic downturn. In 2012, while New Mexico’s economy grew by only 0.2% (the 47th slowest rate in the nation), the economies of our neighboring states all grew at least 10 times as fast: 2.1% in Colorado and Oklahoma, 2.8% in Arizona, 3.4% in Utah, and 4.8% in Texas.

This is probably explained by the fact that, unlike every earlier downturn, both public and private payrolls have been hit hard in the recent Great Recession.

As Yale economics professors Ben Polak and Peter K. Schott explain, “there is something historically different about this recession and its aftermath: in the past, local government employment has been almost recession-proof. This time it’s not.” Their analysis found that, since the data began being collected in 1955, this is the first time that local and state government employment has declined during a recession. The decline is due at least in part to cutbacks in federal spending, which have also decreased the size of the federal workforce. Given the size of the federal deficit and the national debt, New Mexico can no longer count on the federal government to act as a driver of the state’s economy the way it has in the past.

Moreover, according to an April 2012 report by the New Mexico Legislative Council Service and Legislative Finance Committee, federal “budget cuts
will likely be broader and deeper in New Mexico than in most other states due to its heavy reliance on federal spending."

Clearly the challenge for New Mexico going forward is to create many more private sector jobs to build on our existing foundation of public sector jobs.

There is no single reform that can address all the challenges faced by New Mexico’s job seekers. As Doug Brown, the retiring Dean of UNM’s Anderson School of Management, has described it: just as filling in a few words in a crossword makes the entire puzzle easier to solve, there are policy reforms that can help improve the overall conditions for job growth. In the following pages, we propose a trio of such policy solutions designed to build a more diverse economy and improve the odds for New Mexico’s job seekers.

Source: Federal Reserve Bank of St. Louis, research.stlouisfed.org. Shaded bars on the graph indicate U.S. recessions.
WHAT WORKS — AND WHAT DOESN'T

The Ewing Marion Kauffman Foundation, which is dedicated to the study of entrepreneurship, analyzed past state efforts to promote economic development and concluded that: “Historically, these efforts have, to put it mildly, underperformed.”

Too often, the 2012 Kauffman report found, states have focused on handing out capital and directly underwriting businesses. Unfortunately, the report concluded, these “government efforts to boost business creation by underwriting private capital frequently result in underperformance, wasted money, unanticipated outcomes, and economic distortions.”

By contrast, the most effective state strategies fall into the category of what was termed “setting the table” by Harvard Business School professor Josh Lerner in his 2009 book, Boulevard of Broken Dreams. “Setting the table” refers to policies that create a more hospitable environment for business creation and success.

To set the table for economic success, the Kauffman Foundation recommends that states focus on three areas: (1) increasing the supply of potential entrepreneurs, (2) reducing administrative barriers to business creation, and (3) facilitating the growth and development of existing companies.

Following the Kauffman Foundation’s methodology, Think New Mexico proposes that the legislature and governor adopt three concrete policy reforms: (1) increasing New Mexico’s supply of entrepreneurs by attracting more entrepreneurial students to the state’s universities, (2) creating a one-stop business portal to reduce the administrative burdens on new and existing businesses, and (3) implementing a post-performance tax incentive system designed to facilitate the growth of existing New Mexico businesses and attract new companies to the state.

To pay for these reforms, we recommend rethinking some of the state’s existing tax incentives, with a particular focus on increasing accountability and return on taxpayer investment.

Tourism has been one of New Mexico’s largest private sector industries for many years, promoted by brochures like this one from 1952, which depicts Governor Edwin Mechem and his family in Santa Fe. Photo courtesy the Center for Southwest Research.
If past is prologue, then most of the new jobs in New Mexico will come from start-ups and small to medium-sized businesses that are about one to five years of age. The Kauffmann Foundation found that since 1980, nearly all net job creation in the nation has come from these businesses.

According to the Kauffman Foundation, “it is clear that new and young companies and the entrepreneurs that create them are the engines of job creation and eventual economic recovery.”

So rather than picking economic winners and losers as many state governments attempt to do, New Mexico’s state government might better serve its constituents by adopting policies that will supplement the number of entrepreneurs in New Mexico by attracting new ones.

A very good place to start would be by enrolling more international students in our public universities. That is because international students tend to be unusually entrepreneurial, more so than any other demographic group.

Immigrants start businesses at more than twice the rate of non-immigrants. For example, in 2010, the business formation rate among immigrants was 0.62 compared to 0.28 for non-immigrants. That translates into 620 businesses started each month for every 100,000 immigrants compared to 280 businesses started by every 100,000 non-immigrants.

Indeed, immigrants are overrepresented among prominent business founders in America. Think, for example, of Russian-born Sergey Brin who co-founded Google, Hungarian-born Andy Grove who co-founded Intel (which currently employs 3,300 people in New Mexico), and Vinod Khosla, who emigrated from India to the United States and later founded Sun Microsystems.

In fact, according to the Partnership for a New American Economy, 18% of the Fortune 500 companies were founded by immigrants and another 22.8% were founded by children of immigrants.

Here in New Mexico, two of the state’s largest supermarket chains, El Mezquite and El Paisano, were started by immigrant entrepreneurs. Another New Mexico entrepreneur, Andy Lim, came to the Land of Enchantment from Taiwan, graduated from the University of New Mexico (UNM), and started a software technology company only three years ago that is revolutionizing the restaurant industry.

Andy’s story also illustrates another important point: immigrant entrepreneurship rates are especially high in the STEM (science, technology, engineer-
STEM companies are especially valuable because STEM jobs tend to pay more than non-STEM jobs. For example, a study by the national think tank the Brookings Institution found that, in the Albuquerque area, STEM jobs provide an average salary of more than $67,000 while non-STEM jobs had salaries of less than $35,000.

But contrary to popular belief, Brookings found that “half of all STEM jobs are available to workers without a four-year college degree, and these jobs pay $53,000 on average.” These jobs are in fields like construction and manufacturing, and while these workers are not inventing new technologies, they play a crucial role in installing, maintaining, and repairing those technologies. This has particular significance for New Mexico given the educational demographics of our workforce.

Many immigrant entrepreneurs begin as international students at U.S. universities, particularly as students of STEM or business disciplines. According to the Kauffman Foundation, 75% of immigrant STEM entrepreneurs hold degrees in STEM fields, while 16.7% of all immigrant entrepreneurs hold degrees in business and management.

Not surprisingly, a number of states have already begun to recruit international college students. One of the first states to launch a concerted effort to attract students from abroad was North Dakota.

In 1999, faced with a declining state population, North Dakota’s legislature, business leaders, and universities developed a plan to use North Dakota’s universities as the “primary engine in reversing” the state’s economic troubles. Their plan was based on ramping up efforts to bring in students from overseas (and out-of-state).

The plan focused on encouraging these student entrepreneurs to stay in the state and launch businesses after graduating.

The strategy has been remarkably successful. International student enrollment at North Dakota’s public universities rose from 1,125 in 2000 to 1,600 in 2010, an increase of over 40%. Today, international students make up 5.9% of the undergraduate population at the University of North Dakota (UND) and 4% at North Dakota State University (NDSU).

By contrast, international students make up just 0.99% of the undergraduate population at UNM; 2.43% at New Mexico Institute of Mining and Technology (NM Tech); and 3.82% at New Mexico State University (NMSU). New Mexico’s public re-

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**International Students’ Fields of Study**

- Science, Technology, Engineering & Math: 41%
- Business & Management: 22%
- All Other Fields: 37%

*Source: Open Doors 2012 Report on International Educational Exchange. Data is for all international students studying in the U.S.*
ANDY LIM: NEW MEXICO ENTREPRENEUR

Meet Andy Lim. He is the 37-year-old co-founder and chief executive of Lavu, a software company in Albuquerque that is revolutionizing the restaurant industry by streamlining the way they take food orders and accept payment with tablets, smartphones, and other mobile devices. The three-year-old company employs more than three dozen New Mexico twenty-somethings in high-paying jobs with benefits.

There is no dress code at Lavu, but a visitor might mistakenly assume that T-shirts and jeans are required. Lavu’s workspace features drums, guitars, keyboard, a microphone and a fluorescent lime green wall.

It is the type of company atmosphere one might be more likely to expect in technology hubs like California’s Silicon Valley or Boston’s Route 128. In fact, venture capitalists from both those places have been knocking on Lavu’s doors in Albuquerque lately. They want a piece of Lavu’s software product and its exploding growth, which produced $3 million of revenue in 2012.

The Lavu product, which ranges from a few hundred to a few thousand dollars depending on what a restaurant needs, is now in more than 3,000 restaurants in over 60 countries. By contrast, competing products typically cost around $20,000 to install (plus maintenance, licensing fees, and updates).

Andy is not from Albuquerque or even the United States. He came to Albuquerque in 2000 after a magnitude 7.8 earthquake struck his native Taiwan. He chose New Mexico because he had a friend here, but Andy says that he stayed because of the quality of life.

At the time, Andy spoke four languages, but not English. He managed to learn English while earning an undergraduate degree in management information systems from UNM and working a full-time night shift job simultaneously.

Andy has become something of a cheerleader for New Mexico as a place to start and grow a business. (In his spare time he also co-founded the Asian fusion bakery Mean Bao in the Nob Hill neighborhood of Albuquerque with his wife.) He says he came here essentially accidentally, but believes that New Mexico “can be the next Silicon Valley” if its universities would intentionally recruit more students just like him.

His employees, many of whom are New Mexico natives and UNM graduates, would agree. Take, for example, Theo Schnepper, who says, “Without Andy and Lavu providing me the opportunity to do what I love [computer programming] in New Mexico, I probably would have left for a software engineering job in California or Texas. Now I can stay in the state, close to my family in Rio Rancho, and have a rewarding career.”
search universities would need to more than double their international undergraduate student populations in order to reach North Dakota’s level.

After graduating, many international (and out-of-state) students have stayed in North Dakota and started companies, particularly in the information technology, computer science, medical, and defense industries, according to a Wall Street Journal profile of North Dakota, which expressed surprise at the state’s ability to attract nonresident students despite being “flat, cold [and] landlocked.”

North Dakota attracts these nonresident students with affordable tuition. As the Wall Street Journal profile noted, a key to attracting students from outside the state “was undercutting other states on price... As others raised tuition, North Dakota held its price down.”

International students pay around $8,000 a year at UND and NDSU. That is much less than the out-of-state tuition rates that international students generally pay at UNM, NM Tech, and NMSU, which helps explain why North Dakota is attracting these students at more than double the rate of New Mexico.

North Dakota ranks 48th in tourism in the U.S. and its frigid temperatures are not very inviting. Considering the many amenities and excellent quality of life New Mexico has to offer, we are in an even better position to enroll international students than North Dakota if we can somehow reduce our tuition for those students.

This is urgent because the competition to enroll these students is increasingly fierce. According to the National Conference of State Legislatures, in recent years 24 states have taken action, including offering specific competitive scholarships, to recruit international students.

There will be winners and losers in this interstate competition, of course. “Among probable winners will be academically elite public colleges such as some in California, Texas, Michigan, Virginia and North Carolina, along with colleges in tourist des-

### International Undergraduate Student Enrollment at Research Universities in North Dakota and New Mexico

<table>
<thead>
<tr>
<th>University</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>North Dakota State University</td>
<td>2.2%</td>
</tr>
<tr>
<td>University of North Dakota</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Source: Data compiled by Think New Mexico based on information gathered from North Dakota’s and New Mexico’s public research universities.

### Annual Tuition for Most Full-Time Undergraduate International Students

<table>
<thead>
<tr>
<th>University</th>
<th>Tuition</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Dakota State University</td>
<td>$7,980</td>
</tr>
<tr>
<td>University of North Dakota</td>
<td>$8,294</td>
</tr>
<tr>
<td>New Mexico Tech</td>
<td>$17,074</td>
</tr>
<tr>
<td>New Mexico State University</td>
<td>$19,068</td>
</tr>
<tr>
<td>University of New Mexico</td>
<td>$20,688</td>
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Source: Compiled by Think New Mexico based on data from the universities.
In-State versus Out-of-State Tuition at New Mexico’s Research Universities

<table>
<thead>
<tr>
<th></th>
<th>IN-STATE</th>
<th>OUT-OF-STATE</th>
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<tbody>
<tr>
<td>NM Tech</td>
<td>$5,714</td>
<td>$17,074</td>
</tr>
<tr>
<td>NMSU</td>
<td>$6,040</td>
<td>$19,068</td>
</tr>
<tr>
<td>UNM</td>
<td>$8,446</td>
<td>$20,688</td>
</tr>
</tbody>
</table>

Source: Compiled by Think New Mexico based on data provided by the universities.

Tinations such as Arizona and Colorado,” predicts the Wall Street Journal.

In 1998, New Mexico took the first step toward opening its university doors to more international students when it established a competitive scholarship program for nonresident students. This scholarship reduces tuition at the state’s public universities to in-state levels for out-of-state and international students who have relatively high grade point averages and scores on standardized tests like the SAT and ACT (the standards are set by New Mexico’s Higher Education Department). The number of students who may receive the scholarships is capped at 6% of a university’s full-time student enrollment.

However, the vast majority of those scholarships have been awarded to domestic out-of-state students, rather than to international students. In 2012, for example, about 1,100 students at UNM received the scholarship, but only 277 of those students were international. The rest were from other U.S. states.

Moreover, of those 277 international students receiving the competitive scholarship, only 75 were undergraduates. Graduate students, in general, have access to many more financial resources than undergraduates, including teaching assistantships and research assistantships. By contrast, the state’s competitive scholarship is the only non-loan aid currently available to international undergraduates. As a result, about 60% of international undergraduate students at UNM (and as many as 87% at NM Tech) do not receive any tuition assistance.

This is a problem because the research shows that the cost of school is a major factor for international students. In 2009, the Institute for International Education surveyed several hundred international students who had turned down admissions offers to U.S. universities. Sixty-three percent of them said that the primary reason they had not been able to enroll was the high cost of tuition and fees or other economic factors.

Today, the out-of-state tuition at New Mexico’s universities is more expensive than the national average, according to data compiled by the National Center on Education Statistics. The highest tuition, at UNM, is more expensive than the out-of-state tuition at 80% of public universities in the U.S. (ranking 515 out of 641 schools). By contrast, if New Mexico offered in-state tuition to international STEM and business undergraduate students, our universities would be more affordable than 95% of all public colleges in the U.S.

New Mexico is already failing to attract entrepreneurial international students that we could successfully recruit by offering lower tuition. For example, this year 86 highly qualified Pakistani STEM students and 34 talented Pakistani business students sought to attend UNM—but only if the school could offer them in-state tuition levels, as
the out-of-state cost was too steep. Unfortunately, the existing competitive scholarship is too limited for UNM to be able to offer it to more than a few of these students.

We recommend that New Mexico establish a scholarship program, structured similarly to the existing competitive scholarship, but limited to international undergraduate students committed to earning STEM and business degrees in New Mexico’s public universities. As with the competitive scholarship, academic standards would be set by the New Mexico Higher Education Department and each individual school would continue to decide which students to admit.

Our goal with this scholarship is to more than double the percentage of international students at New Mexico’s public universities from 2.2% to 5% over the next five years.

Beyond becoming the next generation of New Mexico entrepreneurs, these international students will provide immediate benefits to their New Mexican classmates. A 2013 analysis published by the Journal of International Studies found that U.S. students who have more interactions with international students demonstrated improvements in language skills, cross-cultural fluency, and quantitative skills, particularly math, science, and computer technology.

UNM President Bob Frank is a strong believer in the benefits of international students. In an interview given shortly after he was hired in 2012, Frank stated, “UNM has great diversity….What we don’t really have enough of as we go into a global world and a global economy is people from different places. So we only have 800 international [graduate and undergraduate] students here. For a university this size, that’s a very small number. We should have 3 or 4 times that number.”

As we work to attract talented entrepreneurial students from abroad, New Mexico should also nurture the STEM and business skills of local students. This is essential not only to help them achieve their entrepreneurial ambitions (like Lavu’s co-founder, Corey Fiala, who graduated from Valley High School in Albuquerque and met Andy Lim at UNM), but also to prepare them to be the highly paid employees of new and existing companies. Intel, for example, has struggled to find enough New Mexicans with degrees in science and engineering to hire for its Rio Rancho plant.

Along with creating a learning atmosphere in which they are surrounded by the best and brightest classmates from around the world, the most effec-
tive way to assist New Mexico’s entrepreneurial students is to enhance the existing STEM, business, and experiential entrepreneurship programs at New Mexico’s universities (like the Arrowhead Center at NMSU and UNM’s Small Business Institute).

**Think New Mexico recommends dedicating additional funding to building these programs, with an emphasis on realizing the potential of New Mexico’s homegrown entrepreneurial talent.**

We estimate that the cost of providing scholarships to enough international STEM and business students to reach our 5% goal will cost approximately $12.5 million. In the fourth section of this report, we outline a plan for funding this proposed reform.

Ultimately, more international STEM and business students mean more jobs for New Mexicans. According to the American Enterprise Institute, for every 100 foreign-born graduates of a U.S. Master’s or PhD program who stay in the United States working in a STEM field, 262 jobs are created for Americans.

### How to Increase the Number of International Undergraduate Students in New Mexico to 5% Over Five Years

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER OF INTERNATIONAL UNDERGRADUATES</th>
<th>PERCENT OF UNDERGRADUATE STUDENT POPULATION</th>
<th>NUMBER OF NEW SCHOLARSHIPS NEEDED</th>
<th>TOTAL COST (MILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>775</td>
<td>2.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>1,056</td>
<td>3.0%</td>
<td>578</td>
<td>$7.06</td>
</tr>
<tr>
<td>2015</td>
<td>1,232</td>
<td>3.5%</td>
<td>689</td>
<td>$8.41</td>
</tr>
<tr>
<td>2016</td>
<td>1,408</td>
<td>4.0%</td>
<td>800</td>
<td>$9.76</td>
</tr>
<tr>
<td>2017</td>
<td>1,584</td>
<td>4.5%</td>
<td>911</td>
<td>$11.12</td>
</tr>
<tr>
<td>2018</td>
<td>1,760</td>
<td>5.0%</td>
<td>1,022</td>
<td>$12.47</td>
</tr>
</tbody>
</table>

Source: Compiled by Think New Mexico. Our calculations assume that 63% of international undergraduate students major in STEM or business and that the number of students currently receiving competitive scholarships will continue to receive them.
In 2012 and 2013, the Kauffman Foundation partnered with the Thumbtack Corporation to survey thousands of businesses across the nation on several measures of small business friendliness. New Mexico was one of only two states to earn an “F” grade both years for ease of business licensing.

This failing grade is hardly surprising, considering the bureaucratic obstacle course that businesses in New Mexico must navigate to comply with all their filing requirements.

For example, each of the approximately 45,000 businesses in the state must file quarterly employment reports with the New Mexico Department of Workforce Solutions. This seemingly simple task has proven to be a nightmare for many businesses, with processing delays of as much as six months and an online filing system so difficult to use that the agency received over 94,000 calls for assistance the first day it went online.

Along with the reports required by the Department of Workforce Solutions, New Mexico businesses must also register with the Secretary of State and submit many different forms and filings to the Taxation & Revenue Department.

If a business needs a professional license (which are required for at least 52 different professions, from animal trainers to truck drivers), or environmental permits, then add the Department of Regulation & Licensing and the New Mexico Environment Department to the list.

Earlier this year, a constitutional amendment advocated by Think New Mexico took the first step toward streamlining the state’s business filing system, consolidating the corporate registration division that was formerly housed at the Public Regulation Commission with the Business Services Division of the Secretary of State. This reduced the number of agencies most businesses must interact with regularly from four to three.

Eighteen states have gone further, streamlining the business registration process by creating a “one-stop business portal,” a website where businesses can find, complete, and file all the forms they need to file with various state agencies. The most recent states to join the growing list are Florida and Washington state, which enacted laws establishing their business portals earlier this year.

Delaware launched its one-stop business portal in 2006. Prior to that, businesses in Delaware had to file paperwork with at least three separate state agencies and as many as six divisions within those agencies. The business licensing process was described as “very cumbersome, lengthy and confusing.”

The one-stop portal in Delaware brought together the equivalents of New Mexico’s Department of Workforce Solutions, Secretary of State, and Taxation & Revenue Department. All filings and fees required by any of those agencies could be submitted through a single website.

Within a year of its implementation, the portal had resulted in a 300% improvement in license processing time and earned a nearly 90% satisfaction rate among businesses using the service. Delaware businesses now receive their initial licenses within a week, compared to an average of 29 days before the one-stop portal was implemented.
In New Mexico’s 2013 legislative session, Democratic Senator Michael Padilla introduced Senate Joint Memorial 27 to have the state study the creation of such a “one-stop portal” in New Mexico. (Unfortunately, although the memorial passed the Senate unanimously, it ran out of time and was never heard in the House.)

The idea is a bipartisan one. Republican Governor Susana Martinez noted in her 2011 State of the State address: “One of the greatest and costliest challenges small businesses face is the fact that each agency creates its own maze of red tape. It’s

A one-stop business portal may also save the state money over the long run. As the official fiscal analysis of Senate Joint Memorial 27 noted, “the single business portal could potentially reduce costs from a state level,” by allowing the state to invest in a single online registration system rather than buying and maintaining separate systems for each agency.

We recommend that New Mexico join the growing number of states that are reducing administrative burdens on businesses with a one-stop portal for all business fees and filings. Doing so will make New Mexico a more attractive place in which to start or relocate a business — and create more jobs for New Mexicans.

<table>
<thead>
<tr>
<th>States with One-Stop Portals</th>
<th>Year Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delaware</td>
<td>2006</td>
</tr>
<tr>
<td>Florida</td>
<td>2013</td>
</tr>
<tr>
<td>Kentucky</td>
<td>2011</td>
</tr>
<tr>
<td>Maryland</td>
<td>2011</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>2013</td>
</tr>
<tr>
<td>Michigan</td>
<td>2009</td>
</tr>
<tr>
<td>Montana</td>
<td>2013</td>
</tr>
<tr>
<td>Nebraska</td>
<td>2008</td>
</tr>
<tr>
<td>Nevada</td>
<td>2013</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>2011</td>
</tr>
<tr>
<td>Ohio</td>
<td>2001</td>
</tr>
<tr>
<td>Oregon</td>
<td>2012</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1999</td>
</tr>
<tr>
<td>South Carolina</td>
<td>2005</td>
</tr>
<tr>
<td>Utah</td>
<td>2003</td>
</tr>
<tr>
<td>Virginia</td>
<td>2009</td>
</tr>
<tr>
<td>Washington</td>
<td>2013</td>
</tr>
<tr>
<td>West Virginia</td>
<td>2004</td>
</tr>
</tbody>
</table>

Source: State statutes, compiled by Think New Mexico.
ACCELERATING GROWTH
Post-Performance Incentives

Dan Burrell, 34, is the former Chief Executive Officer of Rosemont Realty, a commercial real estate investment and management company that owns more than 16 million square feet of properties in New Mexico and 25 other states. The company is based in Santa Fe with regional offices in Albuquerque, Atlanta, Dallas, Denver, Houston, San Antonio, Washington D.C., and New York.

During his time as CEO, Dan spoke with many other business leaders around the country and gained a high-level perspective of what is and is not effective when it comes to economic development.

Dan says candidly about New Mexico, “We’re not doing a great job right now from a business perspective. [Since the Great Recession] all sectors of the economy have contracted other than health care and education. There has been nothing from the state in terms of a real, coherent long-term strategy...It’s been ad hoc — let’s bring this company here on these terms.”

That criticism can probably be fairly applied to New Mexico’s economic development approach stretching back at least a half century. In a 2012 report, the Legislative Finance Committee evaluated the state’s job creation incentives and tax expenditures and observed that New Mexico “has a fragmented and uncoordinated approach to job creation which continues to this day.”

In recent years, the state has provided up-front, pre-performance financial incentives to a number of companies that have created good, lasting jobs, including Intel, Fidelity, Hewlett-Packard, Lowe’s, and Temper-Pedic. However, our failure to track and measure the costs and benefits has meant that “the state of New Mexico is unable to demonstrate the return taxpayers are receiving on their [incentive] dollars,” as the Legislative Finance Committee’s 2012 report concluded. In some cases, costly incentives have not paid off with lasting job creation.

Beauty Health & Science Innovations

One recent example that highlights the risks of pre-performance incentives is an economic development deal between the City of Clovis and Beauty Health and Science Innovations (BHSI). With great fanfare, in 2011 the Clovis City Commission voted unanimously to pay more than $1.8 million in no-interest forgivable funds to BHSI in exchange for BHSI relocating a plant to Clovis in 2012. The City of Clovis expected that this would lead to the creation of 350 jobs producing skin care products and energy drinks.

Unfortunately, BHSI’s CEO and promoter failed to deliver on his promises and the plant never opened. Not a single job was created, but a local construction contractor who worked on the plant and never got paid went under, causing five employees to lose their jobs. The BHSI CEO is now living...
in Guatemala and the city is scrambling to recover taxpayer dollars, while incurring legal expenses that exceed $100,000.

**Schott Solar**

The case of Schott Solar demonstrates that even when all parties have the best of intentions, pre-performance incentives can still sometimes be risky investments for state taxpayers. In 2009, the state of New Mexico provided Schott with $15.9 million in incentives to win a major solar products manufacturing expansion from this German multinational corporation. The plant was projected to create 1,600 permanent jobs.

Schott invested $100 million into the project and created approximately 300 jobs. However, in 2012 the market was flooded with cheaper solar panels produced abroad and Schott closed its Albuquerque plant. The City of Albuquerque, which had provided $5.5 million in pre-performance funding to Schott, had included claw-back provisions in its incentives so that it was able to recover its investment and redirect those funds to other economic development opportunities.

Unfortunately, the state had neglected to include claw-backs in its incentives. As a result, state taxpayers lost the millions of dollars they had spent on pre-performance funding for Schott (though they do retain some ownership of the property and infrastructure).

**Santa Fe Studios**

Santa Fe Studios was the brainchild of Hollywood filmmakers Lance Hool and his brother, Conrad Hool, who convinced Santa Fe County and the state in 2006 to provide Santa Fe Studios’ La Luz Holdings LLC with incentives of $20.1 million to build a 40,000 square-foot motion picture and television production complex in Santa Fe County.

(Critics have noted that the Hools were boyhood friends of the then Governor, hosting a Los Angeles fundraiser for his presidential campaign, and were political contributors to at least one of the then Santa Fe County Commissioners. Spokespeople for both elected officials have denied that these connections had anything to do with La Luz Holdings receiving government funding.)

The $20.1 million of incentives included a $10 million state grant from the Economic Development Department for construction. Santa Fe County guaranteed a $6.5 million loan and paid for another $3.6 million in infrastructure improvements.

In addition to the direct incentives, La Luz Holdings was given the right to develop film-related businesses on an adjacent 16.5 acre tract owned by Santa Fe County. Under this arrangement, La Luz Holdings gets 98% of the profit. Santa Fe County

An empty sound stage at Santa Fe Studios. Only two productions have been housed there since the studio opened in 2011. Photo courtesy Megan Kamerick.
will receive the other 2%, but only for the first twenty years.

In return for all of these incentives, La Luz Holdings purchased 65 acres from Santa Fe County for $2.6 million, posted collateral equal to one-third of the county-guaranteed loan, and promised to create 500,000 hours of above minimum wage job activity in its first five years.

Santa Fe Studios opened in late 2011 without any television or movie projects. Since that time, the studio has housed one television show, “Vegas,” which has since relocated to Los Angeles, and, perhaps ironically, a film called “A Million Ways to Die in the West.”

Santa Fe Studios might have been a better idea if there were not already two movie studios in the immediate vicinity: the smaller Greer Garson Studios in downtown Santa Fe, and Albuquerque Studios, which is five times larger and less than 70 miles away. Albuquerque Studios (home to productions including “Breaking Bad,” “The Lone Ranger” and “The Avengers”) had been built three years prior to Santa Fe Studios with private investment of $74 million.

### The Post-Performance Model

In contrast to New Mexico’s ad hoc approach to economic development, Utah has adopted a more effective, coherent, long-term economic development strategy that is based on post-performance incentives.

In the five years since Utah’s governor and legislature began implementing this strategy, Utah has created more than 25,000 jobs directly through post-performance tax incentives. That has translated into $16.232 billion in new state wages, $5.159 billion of new capital investment, and $1.617 billion in new revenues for state government, according to the state of Utah. Last year, Utah created jobs at a faster pace than any state in the nation except North Dakota.

Here is how Utah’s post-performance tax incentive works: out-of-state businesses that relocate to Utah and in-state businesses seeking to expand operations and create new jobs are eligible to receive a rebate of up to 30% of the new sales taxes, corporate income taxes, and withholding taxes that they would otherwise owe as a result of the expansion or relocation. The life of the incentive is typically five to ten years, and each year the business must report its performance to the state before receiving the rebate.

For a business to receive the rebate, Utah requires that it must create incremental new jobs—in other words, more than the baseline number of jobs that existed in the business before the expansion or relocation, and jobs that are not simply shifted from another part of the state.

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**Jobs Created by Utah’s Post-Performance Tax Incentive**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Jobs Created</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8,508</td>
</tr>
<tr>
<td>2011</td>
<td>6,573</td>
</tr>
<tr>
<td>2010</td>
<td>3,962</td>
</tr>
<tr>
<td>2009</td>
<td>2,228</td>
</tr>
<tr>
<td>2008</td>
<td>4,275</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25,546</strong></td>
</tr>
</tbody>
</table>

In urban communities, new jobs created must pay at least 125% of the county average; in rural communities, they must be at least 100% of the county average.

Utah’s Governor Gary Herbert told Site Selection magazine, “We [tell businesses] that we don’t give people money to come here, but if you produce and create jobs, we will give you a portion of the money you generate...We don’t bribe businesses to come here. Other states do it differently, but our incentives are all post performance.”

In many cases the jobs created by Utah’s post-performance incentive have come from blue chip companies like Adobe, eBay, Boeing, Procter and Gamble, and Oracle. These companies are attracted by the fact that they are competing for incentives based on merit (i.e., their performance) rather than on political relationships, as well as by the fact that the incentive is not limited to specific, government-favored industries.

There are also many advantages for the people of Utah. Chief among them is that there is no risk for the taxpayer. “You don’t get a dime until we get a dollar” is how some describe the Utah approach. In other words, a business must grow the pie of state revenues before it receives a slice, and state taxpayers retain more than two-thirds of those new revenues.

Because the rebates companies receive are less than the new taxes paid on profits, payroll, and purchases, the post-performance incentive program pays for itself. In addition, since rebate checks are not cut until jobs are actually created, there is no need for claw-backs nor the expense of enforcing them.

We recommend that New Mexico establish a post-performance incentive for new and expanding businesses in our state, based on the model successfully pioneered in Utah.

This post-performance incentive would not replace New Mexico’s existing pre-performance incentives, but it would be an alternative option that the state could use to attract new companies and encourage existing businesses to expand and create jobs here in New Mexico. The high level of accountability provided by post-performance incentives is in keeping with reforms that have recently been made to the state’s incentive system, such as the bipartisan legislation that was enacted during the 2013 legislative session to require that the state include claw-backs in future pre-performance incentives.

A post-performance incentive should enjoy bipartisan appeal in New Mexico. It was enacted by a Republican Governor and a Republican legislature in Utah and should be attractive to Governor Martinez and Republicans in the New Mexico legislature. Meanwhile, the New Mexico Legislative Finance Committee has praised the Utah model and several Democratic senators have introduced economic development bills that are consistent with Utah’s system.

Moving from our ad hoc economic development approach to a more coherent and effective strategy that emphasizes post-performance incentives will help create the jobs we need for the next generation of New Mexicans.
**HOW TO PAY FOR REFORM**

**Rethinking Special Interest Incentives**

New Mexico’s state tax code includes no fewer than 338 credits, exemptions, and deductions. Some of them provide real benefits to New Mexico’s businesses and families—like the tax-free sale of groceries, which Think New Mexico successfully led the fight for in 2004.

However, there are also many tax loopholes that have been created to spur economic development in particular industries, some of which are ineffective, outdated, and unlike post-performance incentives, lacking in accountability.

The Legislative Finance Committee’s 2012 analysis of New Mexico’s tax expenditures concluded that the state’s incentive system has serious “weaknesses in accountability, reporting, and assessing program value.” Although the Secretary of the Economic Development Department disagreed with some of the committee’s conclusions, he agreed that the state needs to do a much better job of determining the true costs and benefits of the state’s long list of incentives.

It would take an entire report to comprehensively analyze all of New Mexico’s existing tax incentives. Here, we simply highlight a few examples of incentives that could be eliminated or reformed in order to reallocate resources to more effective economic development initiatives, such as attracting entrepreneurial students to New Mexico’s universities and enhancing the state’s STEM and business programs.

**Tax Increment Development Districts**

With New Mexico’s tax increment for development districts (TIDDs) incentive, the state dedicates up to 75% of the new gross receipts tax revenues that are generated by a new real estate development to pay off the debt from bonds issued to build infrastructure (such as roads) for the development.

Unlike the post-performance incentives described in the previous section of this report, here the state commits to providing tax dollars before jobs or new revenues have been created.

The risks posed by TIDDs were narrowly avoided in the case of the proposed 55,000-acre Westland DevCo development on the west side of Albuquerque several years ago. SunCal, a California-based development corporation and the parent company of Westland DevCo, bought the land and sought approval from the state legislature for TIDDs worth $408 million over 15 years. Legislation to approve those TIDDs was narrowly defeated in 2008 and 2009, despite the company spending over $232,000 on advertisements and hiring 15 professional lobbyists to promote the project. As media coverage at the time put it, the “tenuous nature of the project” became clear in 2010, when Westland DevCo filed for Chapter 11 bankruptcy and the property was auctioned off on the Bernalillo county courthouse steps. Without better protections, the state may not be so fortunate next time.

We recommend that, for future TIDDs, developers be required by law to meet specific job creation, capital investment, and revenue enhancement benchmarks as a condition of the state committing tax revenues to the project. If those benchmarks are not met, then the district would not be allowed to issue any bonds that are backed with state tax dollars.

In addition, for future projects, the maximum percentage of new state taxes dedicated to TIDDs
should be reduced from 75% to 30% — the same percentage of new tax dollars we recommend providing for post-performance incentives. Based on legislative projections of the state tax revenues that will be produced by current TIDDs, we estimate that reducing the maximum percentage of state tax dollars dedicated to future TIDDs would yield an average savings of $3.6 million tax dollars a year per project.

**Tax Break for ATVs and RVs**

When motor vehicles are sold in New Mexico, they are subject to a 3% excise tax, instead of the higher 5.125% gross receipts tax imposed on the sale of most other goods and services. This lower tax rate makes sense, considering the importance of cars and trucks for getting families to work and school, particularly in New Mexico’s rural communities.

However, because all-terrain vehicles (ATVs) and recreational vehicles (RVs) are classified as motor vehicles, they are also taxed at the lower 3% rate. Around 80% of ATVs and RVs are used purely for recreational, not work purposes, according to the industry’s trade group. In addition, ATVs have been responsible for dozens of deaths and hundreds of serious injuries in New Mexico since record-keeping began in 1982.

Taxing the sale of ATVs and RVs at the higher gross receipts tax rate, rather than the lower motor vehicle excise tax rate, would bring in at least $3.3 million a year—even if the 20% of ATVs and RVs purchased for legitimate work purposes continue to be exempted.

**Cigarette Stamp Tax Discount**

Since 1943, New Mexico has provided a tax discount to tobacco wholesalers. The justification for this discount was that tobacco sellers have to affix “cigarette stamps” to their products to prove that they are in compliance with the tax law, and the state should compensate sellers for the cost of affixing those stamps.

In our 1999 policy report, *Setting Priorities*, Think New Mexico recommended eliminating this tax discount, particularly since it largely benefits out-of-state companies: only six of the businesses distributing cigarettes in New Mexico are based in the state, while 23 are out-of-state companies.

Senator Dede Feldman unsuccessfully sought to eliminate the discount in 2000 and 2002. In 2003, the Governor’s Blue Ribbon Tax Commission also criticized the provision, noting that “no other tax program reimburses vendors for the cost of complying with the tax program,” and suggesting that the “provision has outlived its usefulness in the contemporary era of increased mechanization, concentration among fewer distributors and a public policy of [high] taxation of tobacco products.”

* A New Mexico tobacco stamp from 1943.
Finally, in 2006 and 2010 Representative Gail Chasey sponsored bills that significantly reduced the discount. We believe that the time has come to eliminate it entirely. Doing so would raise about $178,000 annually.

**Tax Exemption for Racetrack Purses**

Another loophole in the tax code that Think New Mexico highlighted in its *Setting Priorities* report was the tax exemption for the money received by horsemen, jockeys, and trainers in the form of purses (cash prizes) at New Mexico's racetracks.

Our previous report noted that a 1996 Professional Tax Study Committee report had concluded that “no tax policy reason exists for the exemption of racetrack purses” and had recommended that “the receipts of purses also should be subject to gross receipts tax.”

According to a May 2013 Legislative Finance Committee Report, the size of racing purses has grown from about $15 million in 1999 to $62 million in 2011. If these purses were subject to the state's gross receipts tax, the state would earn approximately $3.12 million annually.

**Deduction for Professional Fighting**

Horse racing is not the only professional sport to receive special tax treatment in New Mexico. The state also provides a deduction from the gross receipts tax for broadcasting, producing, or staging professional boxing, wrestling, and martial arts contests.

When this exemption was created six years ago, the industry argued that it was needed because such competitions were already subject to a 4% privilege tax. Privilege taxes are imposed on certain industries for the privilege of having a license to practice them, and are often earmarked to support the costs of regulating the industry. In this case, the privilege tax goes directly to support the New Mexico Athletic Commission, which regulates and licenses boxing, wrestling, and martial arts in New Mexico. As a result, the Taxation & Revenue Department took the position in 2003 that “the 4% privilege tax may be considered a cost of doing business as a promoter, not a general tax.”

We can only estimate the cost of this exemption to New Mexico taxpayers, since, as the Taxation & Revenue Department stated in its 2012 Tax Expenditure Report, “there are no data available to estimate the usage and direct revenue impact of this tax expenditure.” However, when it was considered by the Governor's Blue Ribbon Tax Commission in 2003, the cost was estimated at about $700,000 annually.

**Rental Storage Units Exemption**

When someone in New Mexico rents a self-storage warehouse unit, the cost of the rental is not subject to gross receipts tax. Yet when that same person buys a shed for the back yard, or rents a room inside a larger storage warehouse (rather than a self-contained unit), gross receipts tax is imposed.

Photo courtesy Shutterstock, image #121086274.
This difference is due to a quirk of the New Mexico Administrative Code, which defines individual, self-contained storage units as “real property,” like houses and apartments, the rental of which is not taxed. By contrast, gross receipts tax is imposed on the rental of other types of property, such as cars, tools—or even locker rooms within a warehouse storage facility.

The Governor’s 2003 Blue Ribbon Tax Commission estimated that closing this loophole would bring in about $800,000 annually.

**World Wide Web Hosting Deduction**

In 1998, Google was founded in a California garage. That year, only about 41% of U.S. adults went online, according to a Pew poll.

New Mexico was interested in getting in on this young industry, and so in 1998, the legislature and governor enacted a bill to exempt revenues earned from “hosting world wide web sites” from the state’s gross receipts tax. The idea was to make New Mexico an attractive place to launch web hosting companies.

Fast forward to 2013, and this deduction is still on the books. As the New Mexico Taxation & Revenue Department explained in its 2012 tax expenditure report, “tax expenditures…can serve as an incubator for fledgling industries, but the benefit of these tax incentives become less important as an industry becomes stronger.” Although web hosting qualified as a fledgling industry in 1998, it is certainly well-established now. The Governor’s Blue Ribbon Tax Commission estimated in 2003 that closing this tax loophole would bring in around $2 million a year.

<table>
<thead>
<tr>
<th>Potential Savings from Rethinking Tax Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATVs &amp; RVs</td>
</tr>
<tr>
<td>Cigarette Stamps</td>
</tr>
<tr>
<td>Horse Racing Purses</td>
</tr>
<tr>
<td>Professional Fighting</td>
</tr>
<tr>
<td>Rental Storage Units</td>
</tr>
<tr>
<td>TIDDs</td>
</tr>
<tr>
<td>Website Hosting</td>
</tr>
</tbody>
</table>

**TOTAL** $13,698,000

Source: Compiled by Think New Mexico based on data from the Governor’s 2003 Blue Ribbon Tax Commission, the New Mexico Legislative Finance Committee, and the New Mexico Taxation & Revenue Department.

These are just a few examples of the special interest credits, deductions, and exemptions that can be found throughout New Mexico’s tax code. We believe that the dollars currently being used on them would be better spent on policies designed to “set the table” for job creation.

Although it is impossible to determine the exact cost of many of the tax incentives identified here, the available estimates indicate that they cost New Mexico taxpayers over $13 million a year—more than enough to cover the cost of our proposed scholarships to increase the number of entrepreneurial international STEM and business students studying at New Mexico’s public universities. Based on this initial analysis, we are confident that enough additional loopholes could be closed to also provide substantial funds for enhancing STEM, business, and entrepreneurship programs at New Mexico’s public universities.
REALIZING NEW MEXICO’S JOBS POTENTIAL

As CEO of the Albuquerque venture development company Southwest Medical Ventures, Waneta Tuttle helped create six start-up companies from scratch. She has served as the founding CEO of three companies in the life sciences and health technology fields, and is currently working to bring five more start-ups to fruition.

When we spoke with her, Waneta was enthusiastic about New Mexico. Referring to a recent ranking of the best states for business, she commented: “If a small state like South Dakota can be ranked number one for business in the CNBC rankings, there is no reason that we cannot do the same. We have a lot to offer compared to other states, if we fulfill our potential.”

New Mexico’s many advantages include its concentration of national laboratories and research universities, its culturally diverse population, its stunning natural resources, and excellent quality of life that attracts innovative entrepreneurs—like Andy Lim, whom we highlighted earlier in this report.

Another advantage New Mexico has is that, as a small state, we can easily bring together all the key decisionmakers, from legislators and the governor to universities and business leaders, and actually put a job creation strategy in place relatively quickly.

These advantages are the foundation on which we can build a more diversified economy, increasing the number of private sector jobs in many different fields. This in turn will help reverse the state’s brain drain and begin to dismantle the poverty that lies at the heart of New Mexico’s poor performance in so many national rankings.

In order to get there, however, we need to move past the stale debate about whether it is better to focus on growing small businesses from within the state or recruiting larger ones from outside. In fact, both are important and interconnected, as the employees of large businesses that come to New Mexico often become the entrepreneurs and business managers who launch the small, fast-growing companies that the Kauffman Foundation has found create a disproportionately high number of jobs nationwide.

New Mexico also needs to overcome a real sense of ambivalence about the prospect of economic

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**Think New Mexico’s Job Creation Policy Reforms**

**Enact legislation to:**
- Create scholarships allowing international STEM and Business undergraduate students to pay in-state tuition at New Mexico’s universities
- Create a one-stop business portal for all fees and filings
- Establish a post-performance incentive for businesses that relocate to or expand operations in New Mexico
- Pay for reforms by rethinking existing tax incentives that are obsolete or lack accountability
development in the state. It is certainly true that missteps have been made in the past (such as those documented earlier in this report). However, we believe that rather than concluding that it is impossible to improve New Mexico’s economic standing, the better approach would be to learn from these mistakes and pursue economic development strategies that are accountable, performance-based, and tailored to the needs of the state’s communities, families, and workers.

The policy solutions recommended in this report are designed to have both immediate and long-term impacts on New Mexico’s ongoing jobs crisis. Establishing a post-performance incentive will help bring in new businesses—and encourage existing businesses to expand—right away, while attracting young entrepreneurs will lead to more business formation over the long run. Meanwhile, a one-stop business portal will facilitate job creation by both start-ups and existing companies by allowing them to focus their time and energies on growing their companies, rather than wading through red tape.

These policies provide some first steps we can take toward addressing New Mexico’s urgent jobs crisis. The choice is clear: accept a status quo in which too many New Mexicans lack good jobs or implement policies that set the table for job creation and begin to realize New Mexico’s economic potential.
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