

Thirty-third New Mexico First Town Hall
Albuquerque, New Mexico, April 28-30, 2005
Executive Summary

The Management and Future of Federal Investment in New Mexico

*In its 19th year, **New Mexico First** convened its thirty-third Town Hall to address the issue of federal spending in the state. As is our custom, the participants were provided comprehensive research, this time by the University of New Mexico Bureau of Business Research, which in a very extensive way quantifies the level to which we have come to rely on this tremendous economic resource. Additionally, the participants received presentations on various elements of the topic from 12 very knowledgeable speakers, including the governor. Then, for a period of one and a half days, the participants worked in panels guided by trained facilitators and recorders to reach consensus on overarching strategies, strategic planning strategies, research and technology strategies and economic growth strategies that present opportunities for expanding the uses of our federal resources and diversifying our economy to reduce our relative reliance on federal spending.*

*We provide a final report on the Town Hall that represents the scope of the work done by the board and staff of **New Mexico First** and UNM, as well as the Town Hall participants. The 150-page report lists our board, founders, ex-officio board and staff, our sustaining corporate members, our Town Hall sponsors, the research committee, Town Hall leadership team, speakers and presenters, the Town Hall participants, the implementation team and it provides the Town Hall consensus report and the UNM research document. Electronic and printed copies of the entire final report, as well as video copies of the Town Hall presentations and panel discussions, are available via our protected order form.*

Barbara Brazil
President

Summary of Town Hall 33 recommendations

Since federal troops first arrived in New Mexico in 1846, the state has experienced ever-increasing growth in federal spending to where it reached a record level of \$18.7 billion in 2003. This accounted for 25 percent of the state's economic output, which raises serious concerns about the state's vulnerability in the event this level of spending is not sustained. As a result, we have a growing realization that a higher private sector-to-government ratio must be achieved to lessen the state's dependence on federal spending by, ideally, finding ways to direct federal funding and resources to achieve a more diversified economy.

The Town Hall involved 101 participants from throughout the state. Presentations were provided by the Governor Bill Richardson, Lieutenant Governor Diane Denish, Dr. Paul Robinson, Director, Sandia National Laboratories, Louis Caldera, President of UNM, Dr. Lee Reynis, Director of UNM's Bureau of Business Research, Owen Lopez, Director of the McCune Charitable Foundation, Dr. Donna Smith, Leader of the LANL Tech Transfer Division, Terri Cole, President of the Greater Albuquerque Chamber of Commerce and Dr. Tom Palmieri, Business Manager of DOE's national training center. Former Governor Garrey Carruthers served as the plenary chair.

The work of the Town Hall identified actions that should be taken to more effectively harness federal presence and spending towards sustainable economic development. They include overarching strategies that:

- emphasize the need for 'systematic change' in education to achieve improvements, efficiencies and economies, such as combining public and higher education into one coordinated system;
- recommend strategic plans for business development, and;
- call for the creation of a more diversified economy less reliant on federal resources.

The final report expresses concern over the lack of coordination and collaboration among entities applying for and receiving federal funds and the failure to take advantage of new federal funding opportunities, and recommends the development of strategies for enhancing coordination and collaboration.

In the areas of research and technology, the following are recommended:

- Make economic development a mission component of the national laboratories, including accelerated commercialization of new technology;
- Ensure stability of the national labs by expanding their missions and work with other federal agencies;
- Develop a technology and manufacturing master plan;
- Review the effect of gross receipts taxes on R&D, and
- Support research that advances economic development.

Also addressed were the vast federal lands and resources that could be more strategically used and combined with state resources to enhance business development and education. Among the recommendations are:

- A challenge to state leaders to become more aggressive in identifying and requesting strategic land exchanges, leases and access rights;
- Prioritization of state capital spending to maximize federal infrastructure projects, and;
- Evaluation of funding formulas to address demographics and emerging trends associated with homeland security, border issues, immigration, public safety, transportation and health care.

How to better leverage federal funding to grow the state's economy received a great deal of attention and included the following recommendations:

- Create incentives for and an environment conducive to economic development and an entrepreneurial culture to increase private investment and establish a permanent physical presence in the state based on long-term relationships with research facilities.
- Create and empower a public/private coalition of experts to determine the economic sectors that best contribute to New Mexico's growth based on our unique resources and strengths.
- Foster entrepreneurship and business development by supporting and/or expanding effective business assistance programs such as: enterprise facilitation, business incubation, Small Business Development Centers, technical assistance programs, loans, and investments and assistance to small business to meet procurement requirements of federal contractors.

Summary of UNM Research

Annual federal spending in New Mexico amounts to more than \$10,000 a person - among the highest in the nation, yet the state ranks near the bottom in per-capita income and near the top in terms of poverty. We must ask ourselves: Are there actions that can be taken to more effectively harness the flow of federal dollars to the state and the federal presence here towards sustainable economic development to benefit all New Mexicans?

New Mexico has been influenced by significant federal presence since 1846 when General Stephen Kearney captured Santa Fe in the war with Mexico. This presence has shaped our state's economy in the past and it will shape our economy in the future. While estimating that the federal government's presence in New Mexico contributes an estimated 25 percent of the state's total output (Gross State Product), the study raises questions about how much of this presence translates into meaningful economic development.

At the same time, we must look at what can be done to ensure that today's federal spending contributes to diversifying our economy in ways that accelerate the gains in both our per-capita and median incomes, while reducing the problem of poverty. Critical will be our ability to provide New Mexicans with the education and skills they will need to be competitive and successful in this changing New Mexico economy.

In federal fiscal year 2003 (FY03), federal expenditures in New Mexico totaled \$18.7 billion, which is four times larger than the state's General Fund budget of \$4.5 billion. Additionally, the federal government provided \$3.5 billion in loans and insurance in FY03. Of the \$18.7 billion, \$5.8 billion (31%) involved procurement by the Departments of Energy and Defense for work done by Los

Alamos and Sandia National Laboratories, Honeywell and other defense contractors, by the Postal Service and by other agencies. On average, about 60-65 percent of the procurement dollars stayed in the state.

The next largest categories are made up of retirement and disability payments, which amounted to \$4.4 billion (23.4%), and grants, such as for Medicaid, the State Children's Insurance Program, highways, education and mineral leases, which amounted to \$4.3 billion (23.1%). Federal salaries and wages amounted to \$1.9 billion, while direct payments to individuals amounted to \$2 billion, including expenditures on Medicare, food stamps, PELL grants, and unemployment compensation. Direct payments other than for individuals, such as federal employee insurance premiums and Indian school equalization, amounted to \$288 million.

In FY03, New Mexico ranked 33rd among the states in total federal spending, but was 4th in federal expenditures per-capita. And, while we experienced a 66 percent increase in federal spending between Federal Fiscal Years 1993 and 2003 (29% after adjusting for inflation), New Mexico remains at the bottom of the states in terms of per-capita income, where we rank 47th.

There are many factors that have contributed to this low ranking. Our average annual wages have gone from nearly 95 percent of the national average in the early 80s to where they are currently only about 80% of the national average. We have lost high paying jobs in mining and, more recently, in manufacturing. Our higher paying federal civilian jobs and jobs at our national laboratories have been at best flat. Meanwhile, lower paying jobs, for example at casinos and call centers, have captured much of the employment growth.

The data in the report suggest many questions for consideration by the Town Hall:

- Could federal funds be better 'invested' to grow more jobs and businesses? If so, what strategies might work?
 - Are requests for federal funds well managed; is there good coordination; is there collaboration among agencies to ensure NM has the best chance of receiving funds? Is there room for improvement; what strategies might work?
 - Has NM developed contingency plans in the event major federal funding is lost? If there is room for improvement, what might be done and by whom?
 - What strategies/actions are needed to capture more procurement work for NM and transfer technologies from the national labs? What critical ingredients are needed?
 - What do we know about shifts in federal funding and are there new opportunities for NM?
 - Are there particular federal dollars that have greater impact and how does NM capitalize on retaining/capturing them?
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The UNM report was prepared with funding from the Office of the UNM Vice President for Research and Economic Development