

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?
-

The UNM report was prepared with funding from the Office of the UNM Vice President for Research and Economic Development



The Management and Future of Federal Investment in New Mexico



**Report of the
Thirty-Third New Mexico First Town Hall
April 28-30, 2005
Albuquerque, New Mexico**

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**New Mexico First Town Hall 33
The Management and Future of
Federal Investment in New Mexico**

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*We appreciate your generous and continued support of
New Mexico First and the Town Hall process!*

New Mexico First Town Hall 33
**The Management and Future of
Federal Investment in New Mexico**
April 28-30, 2005
Radisson Hotel and Conference Center
Albuquerque, New Mexico

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Navajo Refining Company

Bohannon Huston

JB Henderson Construction

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Regional Development Corporation

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Town Hall 33 Speakers and Presenters

The Honorable Bill Richardson, Governor of New Mexico, *Keynote address*

Lisa Breeden, *State Communications Director for Sen. Pete Domenici*

Terry Brunner, *State Director to Sen. Jeff Bingaman*

Dr. Lee Reynis, *Presentation on TH 33 Research Report (UNM)*

Dr. Tom Palmieri, *Federal Appropriations: The Reality of the Process*

Lt. Gov. Diane Denish, *The Importance of NM's Military Bases and Diversifying for Tomorrow*

Owen Lopez, *Federal Funding – Curse or Promise?*

Terri Cole, *Preparing the Future Workforce*

Donna Smith, *Making Technology Transfer Work*

Mark Lautman, *Summary of Mesa Del Sol Project*

C. Paul Robinson, *A Perspective on Managing Federal R&D Investment*

Dr. Louis Caldera, *The Significance of Federal Funding for University Research*

DVD's and VHS tapes of the above presentations are available for purchase by visiting our website: www.nmfirst.org

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Ryan Anderson	Stuart Hamilton	Harry Relkin
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John Franchini	James O'Neill	Charlie Whitehurst
George Friberg	Mike Orshan	Eric Whitmore
David Goldheim	Dr. Luis Ortiz	Laurel Wyckoff
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**The Management and Future of
Federal Investment in New Mexico**



**Consensus Report of the
THIRTY-THIRD NEW MEXICO FIRST TOWN HALL**

*April 28-30, 2005
Radisson Hotel and Conference Center
Albuquerque, New Mexico*

Summary of Final Recommendations

Overarching Strategies

- Encourage strong visionary leadership to implement systemic change in education, workforce and economic development to diversify and strengthen our economy and reduce dependence on federal funding. Leverage support from business, labor, political and academic leaders in these efforts.
- Unify, (and, thereby, eliminate inefficiencies and ineffective overlap in) the primary, secondary, and higher education systems, including community colleges and vocational and continuing education, in New Mexico, in order to form one consistent and coordinated system.
- Develop a strategic vision, intent and plan for business and entrepreneurial development that directly contributes to the economic growth of the state and leverages resources, addresses fragmentation and develops infrastructure with emphasis on collaboration, execution, and accountability.
- Foster a diversified economy, less dependent on federal resources, through attraction of private investment, creation of high tech and other businesses, development of a skilled workforce, and utilization of the state's cultural assets and natural resources.

Strategic Planning Strategies

- Develop community and state strategic plans and timelines for implementation that address the future of federal investment in New Mexico.
- Develop strategies and incentives to encourage philanthropic giving and volunteerism to offset the loss of federal funding.

Research and Technology Strategies

- Accelerate the creation of private sector and not for profit entities from existing federal labs and facilities by promoting technology commercialization. Economic development should be included as a critical element to the mission of federal labs and facilities.
- The labs should be given more flexibility in their mission (to include education and competitiveness), recognizing the strategic need to partner with United States industries, streamlining the partnership process and making it more industry friendly. A key action to be taken is amending the Federal Technology Transfer Act of 1989 to allow collaboration on research and development applications among government, universities, industry and business, employment tech assistance programs and small businesses.
- Ensure future stability and expansion of the laboratories to meet evolving national security objectives by expanding the mission of the national laboratories. Increasing the role of the agencies with which the laboratories work and allowing the laboratories to work directly for other federal agencies will broaden the funding base.
- Enhance the missions of laboratories and other federal agencies to develop new kinds of energy, alternative energy, synthetic fuels, environmental technology, telecommunications technology, human health, and desalination of water as part of the Homeland Security mission. The intent is to take advantage of the new opportunities for workforce development and entrepreneurial growth.
- Develop and fund a technology and manufacturing Master Plan to identify what industry applications are growing, need additional infrastructure and sources of funding for implementation.
- Review the gross receipts tax on federally funded and private sector research and development in order to gain business and research that is now leaving the state of New Mexico.
- Support fundamental research as the seed of future advances that support economic development and a trained workforce.

Economic Growth Strategies

- 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. Focus on the identified industry clusters, aligning resources, selecting commercialization targets, and structuring an investment strategy to recruit and expand business enterprises. Apply that model to other industry clusters and engage neighboring states in a regional approach to economic development.
- Change regulations and policies that create impediments to entrepreneurial efforts (i.e. military and lab spin offs, small and minority business, etc.) and provide incentives (federally guaranteed bonds and loans) to encourage private investment in community and economic development.
- Request that the congressional delegation establish a process for identifying and notifying appropriate entities of Federal opportunities for, and threats to, employment and economic growth in New Mexico. As examples: (1) identify opportunities such as outsourcing of federal programs and (2) position New Mexico to lead on emerging technology initiatives such as alternative energy research.
- 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.
- Enhance all government guaranteed fee programs, such as the Small Business Act at the federal level, to include a tax/fee credit for training or jobs created in order to promote small businesses (including the arts) that are the backbone of New Mexico.
- 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.
- Enhance all government guaranteed fee programs, such as the Small Business Act at the federal level, to include a tax/fee credit for training or jobs created in order to promote small businesses (including the arts) that are the backbone of New Mexico.

Education and Training Strategies

- The Oversight Coordinating Committees (recommended in Governor Richardson's Executive Order) would be expanded to include the education and business and cabinet secretaries in order to integrate economic development, education and workforce development, thereby reducing redundancies and better allocating resources.
- Create a statewide strategic planning process that identifies market jobs and related skills and education required, forecasts jobs for the future and identifies skills and education required. This process would be housed in the Office of Workforce Training and Development.
- Align higher education funding formulas with mission specialization and excellence in education. Use state funded scholarships and internships for emerging and critical professions in New Mexico (e.g. science, math and technology), on the condition that graduates work for a specified time in the state. To build a creative economy, enhance job skills, and improve student learning, the educational system in New Mexico must be strengthened in two major ways: first, expand arts and music education to strengthen all students and provide training for future artists in the arts economy (New Mexico's arts economy is estimated to be the third largest in the U.S.). This also helps build the tourism industry. Second, recognizing the link between arts and science, place emphasis on science, math, and technology to ensure the states' future economy.
- Enhance the lottery scholarship program to be more inclusive of students with nontraditional needs such as working students and students returning to education after a prolonged absence, such as military duty or welfare. This attracts federal dollars by showing that the state is willing to invest state money in education and training and creates a partnership that focuses federal funding on developing infrastructure, workforce development, job training, and economic development. In addition, lottery dollars can be used to fund the expansion of vocational education, individual education plans, and workforce development programs from primary, secondary, higher education.
- Replicate the best practices of vocational and continuing education in all parts of the state. Include enhanced career management plans developed for students by students, teachers, and parents. Career management plans include aptitude testing and identification, working with employers, and identifying preferred career options.
- Modify and make more user-friendly to the state, programs that provide funding for retraining all displaced civilian employees. Create new funding streams for re-training, career change, and retooling programs, and ask for continuance of funding for Community Re-use Organizations for workforce development. Re-authorize the Workforce Investment Act and transfer Wagner/Pyser funding to states in a block grant.
- Create cross departmental funding sources that have fewer restrictions and are more flexible and responsive to local workforce needs. Special attention should be given to educational opportunities that help lift people out of poverty.

Resource Utilization and Community Building Strategies

- Challenge New Mexico and its leaders to be aggressive in identifying and requesting strategic exchanges, leases, access rights and policies regarding use or acquisition of federal lands especially to provide land needed for business location and expansion.
- Develop a comprehensive statewide plan for reforming and reprioritizing state capital spending to maximize the state's capacity and ability to leverage federal dollars, prioritize state infrastructure projects and fully fund each project.
- Work with the congressional delegation and federal agencies to strategically use federally owned non-tribal lands through exchanges, leases, transfer of development rights, or other mechanisms to increase the economic viability of New Mexico communities.
- Re-evaluate funding formulas so that funding is fairly allocated amongst states based on current demographics and emerging trends to meet special needs such as those associated with border issues, Homeland Security, immigration, public safety, transportation, and healthcare.
- Meet funding obligations to tribes and counties and make proper funding mandatory versus discretionary.
- Create a more diversified approach to leveraging federally funded programs, such as Department of Agriculture, Department of Education, Department of Transportation, and others that are not defense-related and not necessarily within the mission of the federal research laboratories.

Background



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.

It is with this in mind that "The Management and Future of Federal Investment in New Mexico" was viewed to be important and timely for New Mexico First's 33rd Town Hall. A total of 101 participants from around the state, led by experienced discussion leaders and recorders, participated in Town Hall 33 (see page v for a list of discussion leaders and recorders, and page vi for a list of participants).

To prepare the Town Hall to address this issue, a thorough study and report were prepared by the University of New Mexico's Bureau of Business and Economic Research (the entire Research Report follows the consensus report portion of this document). To our knowledge, this is the first time a comprehensive examination of federal funding in New Mexico and its economic impacts has been assembled. Additionally, the report was supplemented by expert viewpoints presented at the Town Hall by authorities in various areas, including federally funded university research, military installations, national laboratories, and technology transfer and workforce preparation. (see page v for complete list of presenters).

Unlike past Town Halls that focused on single-purpose issues, such as water, taxation and energy, Town Hall 33's topic is multi-faceted and complex. As a result, the UNM research report organized federal programs into three broad areas. They are programs that build: 1) viable communities, 2) viable economies and 3) viable workforces. Each of the topic areas was addressed by two discussion panels of Town Hall participants. The six panels produced recommendations that were consolidated into one set of final recommendations (see pages 2-3).

The discussion panels focused on strategies that can move New Mexico forward, rather than detailed critiques of individual programs. The Implementation Team, (see page 16) formed following the Town Hall, will subsequently develop detailed actions to fulfill the strategic recommendations. The balance of this report is dedicated to providing brief context for the recommendations made and ultimately adopted by consensus at the final plenary session of Town Hall 33.



“Overarching Strategies”

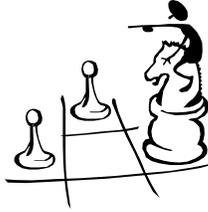
Having developed specific recommendations for each of the focused discussion areas, participants were asked to identify “*overarching strategies*” – strategies that would be valuable to implement regardless of the particular subject matter considered. In general, participants supported the notion that the amount and diversity of federal programs in New Mexico is a valuable resource for the state. The national labs, military bases, university research programs, federal lands, infrastructure development and programs supporting persons in need were oft-mentioned examples of the benefits our state derives. Moreover, \$18.7 billion in expenditures, more than four times the state’s general fund budget, must be appreciated for the jobs and salaries that are created.

At the same time, federal funding also was described as a two-sided coin: though of great benefit to the state, participants concluded that better use of the funding could be made by developing a strategic approach, coordinating among various public and private entities and working to lessen our dependence on this funding by building a stronger private economy. Attention was often focused on the fact that, while New Mexico is fourth highest in the nation in receipt of federal funds per capita, personal income per capita continues to rank 47th. Additionally, key indicators of economic development such as available investment capital and a well-trained workforce continue to lag behind most of the nation.

As can be seen in the following overarching strategies adopted by the Town Hall, these concerns are identified and addressed.

Overarching Strategies

1. Encourage strong visionary leadership to implement systemic change in education, workforce and economic development to diversify and strengthen our economy and reduce dependence on federal funding. Leverage support from business, labor, political and academic leaders in these efforts.
2. Unify, (and, thereby, eliminate inefficiencies and ineffective overlap in) the primary, secondary, and higher education systems, including community colleges and vocational and continuing education, in New Mexico, in order to form one consistent and coordinated system.
3. Develop a strategic vision, intent and plan for business and entrepreneurial development that directly contributes to the economic growth of the state and leverages resources, addresses fragmentation and develops infrastructure with emphasis on collaboration, execution, and accountability.
4. Foster a diversified economy, less dependent on federal resources, through attraction of private investment, creation of high tech and other businesses, development of a skilled workforce, and utilization of the state’s cultural assets and natural resources.



Strategic Planning

The \$18.7 billion in federal monies expended in New Mexico represent a myriad of complex programs that affect virtually every aspect of our lives: education, land use, public infrastructure, transportation, workforce development, research, national defense, income support, health care, water, agriculture, community development and the list goes on. Many of the federal programs require matching funds from state or local governments. Much of the funding goes directly to individuals, educational institutions, state and local agencies and private entities. For example, more than \$6 billion is paid directly to the national labs.

In general, Town Hall participants recognized there is little coordination and collaboration among all the entities applying for and receiving federal funds. In some cases, this causes fragmentation and duplication of effort. Moreover, New Mexico's congressional delegation is beset with a multitude of requests without benefit of prioritization. Participants are concerned that, at a time of declining federal resources and the likely loss of seniority in the U. S. Senate within the next decade, New Mexico will experience losses of funding and the failure to take advantage of new opportunities, emphasizing the need to alter past practices and maximize federal investment. Consequently, two recommendations were made to encourage thinking about the federal investment in New Mexico at a strategic level:

Strategic Planning Strategies

1. Develop community and state strategic plans and timelines for implementation that address the future of federal investment in New Mexico.
2. Develop strategies and incentives to encourage philanthropic giving and volunteerism to offset the loss of federal funding.



Research and Technology

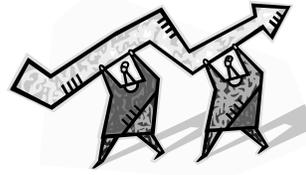
There is strong consensus among the participants that expenditures made for research purposes at our universities and national laboratories are of high value. Not only do these dollars fulfill an important national mission but often the technologies developed can subsequently be commercialized forming new businesses, creating new jobs and building the private sector economy.

A number of impediments to commercialization were discussed. For example, some 40% of the procurement dollars expended by the national laboratories are with firms outside New Mexico. Therefore, increasing New Mexico's capacity to foster entrepreneurship both to take advantage of new technologies and to compete for additional procurement dollars is a priority. It is recognized that commercializing the new technologies requires workforce development, including not only technical but also managerial skills. The Town Hall adopted the following recommendations:

Research and Technology Strategies

1. Accelerate the creation of private sector and not for profit entities from existing federal labs and facilities by promoting technology commercialization. Economic development should be included as a critical element to the mission of federal labs and facilities.
2. The labs should be given more flexibility in their mission (to include education and competitiveness), recognizing the strategic need to partner with United States industries, streamlining the partnership process and making it more industry friendly. A key action to be taken is amending the Federal Technology Transfer Act of 1989 to allow collaboration on research and development applications among government, universities, industry and business, employment tech assistance programs and small businesses.
3. Ensure future stability and expansion of the laboratories to meet evolving national security objectives by expanding the mission of the national laboratories. Increasing the role of the agencies with which the laboratories work and allowing the laboratories to work directly for other federal agencies will broaden the funding base.
4. Enhance the missions of laboratories and other federal agencies to develop new kinds of energy, alternative energy, synthetic fuels, environmental technology, telecommunications technology, human health, and desalination of water as part of the Homeland Security mission. The intent is to take advantage of the new opportunities for workforce development and entrepreneurial growth.

5. Develop and fund a technology and manufacturing Master Plan to identify what industry applications are growing, need additional infrastructure and sources of funding for implementation.
6. Review the gross receipts tax on federally funded and private sector research and development in order to gain business and research that is now leaving the state of New Mexico.
7. Support fundamental research as the seed of future advances that support economic development and a trained workforce.



Economic Growth

As acknowledged in the introduction to this report, federal spending is a two-sided coin. On one hand, the large federal presence tends to insulate New Mexico's economy from radical swings experienced in other states. At the same time, it makes New Mexico vulnerable to closure of a large federal installation such as a military base or national laboratory.

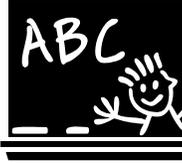
Many participants discussed the "dependence mindset" that is engendered and that the culture of government employment is different from that required of entrepreneurs. There was much discussion about the fragmentation of efforts to develop New Mexico's economy and the need to bring focus to the efforts in order to maximize the funding available to help grow new business. In general, priority should be given to technology spin-offs from national laboratory and university research and on areas already deeply rooted in New Mexico, including the arts and culture.

There is a need to identify and capitalize on new opportunities, not just to concentrate on defensive strategies to prevent loss. For example, there is growth opportunity in the new federal emphasis on Homeland Security. The Town Hall adopted the following recommendations:

Economic Growth Strategies

1. 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.
2. 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. Focus on the identified industry clusters, aligning resources, selecting commercialization targets, and structuring an investment strategy to recruit and expand business enterprises. Apply that model to other industry clusters and engage neighboring states in a regional approach to economic development.
3. Change regulations and policies that create impediments to entrepreneurial efforts (i.e. military and lab spin offs, small and minority business, etc.) and provide incentives (federally guaranteed bonds and loans) to encourage private investment in community and economic development.

4. Request that the congressional delegation establish a process for identifying and notifying appropriate entities of Federal opportunities for, and threats to, employment and economic growth in New Mexico. As examples: (1) identify opportunities such as outsourcing of federal programs and (2) position New Mexico to lead on emerging technology initiatives such as alternative energy research.
5. 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.
6. Enhance all government guaranteed fee programs, such as the Small Business Act at the federal level, to include a tax/fee credit for training or jobs created in order to promote small businesses (including the arts) that are the backbone of New Mexico.



Education and Training

A broad consensus exists among panelists that a more highly skilled and trained workforce is essential to growing the kind of economy that can take full advantage of the new technology opportunities developed at the labs and universities and, thus, reap the maximum benefit from federal funding. It is generally agreed that the state's education and workforce training systems are fragmented and contain duplication. To be effective, they must focus on skills needed for jobs of the future.

Participants believe that education is so key in building New Mexico's workforce that the state should focus on improving education through examples such as: re-defining the mission of higher educational institutions in order to use federal funds more effectively (which could be a role for the new Secretary of Higher Education), by raising high school graduation requirements, and by changing the licensure requirements for subject experts in science and math to better enable current workforce experts to teach in the schools. Emphasizing math and science education and expecting excellence from the education system were frequently mentioned topics.

Education and Training Strategies

1. The Oversight Coordinating Committees (recommended in Governor Richardson's Executive Order) would be expanded to include the education and business and cabinet secretaries in order to integrate economic development, education and workforce development, thereby reducing redundancies and better allocating resources.
2. Create a statewide strategic planning process that identifies market jobs and related skills and education required, forecasts jobs for the future and identifies skills and education required. This process would be housed in the Office of Workforce Training and Development.
3. Align higher education funding formulas with mission specialization and excellence in education. Use state funded scholarships and internships for emerging and critical professions in New Mexico (e.g. science, math and technology), on the condition that graduates work for a specified time in the state. To build a creative economy, enhance job skills, and improve student learning, the educational system in New Mexico must be strengthened in two major ways: first, expand arts and music education to strengthen all students and provide training for future artists in the arts economy (New Mexico's arts economy is estimated to be the third largest in the U.S.). This also helps build the tourism industry. Second, recognizing the link between arts and science, place emphasis on science, math, and technology to ensure the states' future economy.

4. Enhance the lottery scholarship program to be more inclusive of students with nontraditional needs such as working students and students returning to education after a prolonged absence, such as military duty or welfare. This attracts federal dollars by showing that the state is willing to invest state money in education and training and creates a partnership that focuses federal funding on developing infrastructure, workforce development, job training, and economic development. In addition, lottery dollars can be used to fund the expansion of vocational education, individual education plans, and workforce development programs from primary, secondary, higher education.
5. Replicate the best practices of vocational and continuing education in all parts of the state. Include enhanced career management plans developed for students by students, teachers, and parents. Career management plans include aptitude testing and identification, working with employers, and identifying preferred career options.
6. Modify and make more user-friendly to the state, programs that provide funding for retraining all displaced civilian employees. Create new funding streams for retraining, career change, and retooling programs, and ask for continuance of funding for Community Re-use Organizations for workforce development. Reauthorize the Workforce Investment Act and transfer Wagner/Pyser funding to states in a block grant.
7. Create cross departmental funding sources that have fewer restrictions and are more flexible and responsive to local workforce needs. Special attention should be given to educational opportunities that help lift people out of poverty.



Resource Utilization and Community Building

As the research report identifies, New Mexico is home to vast public lands and other natural resources, many of which are managed by the federal government. Moreover, the federal government plays a major role in the regulation of these assets, in determining use policies and in helping build infrastructure that allows public use and access. The openness of New Mexico also is an asset in terms of attracting some kinds of industry, including military and civilian aviation.

Participants see a need for a more strategic approach to use of federal lands and to ensure that funding for programs that support use of these lands such as agriculture, tourism and mineral extraction, receive attention and state support to leverage federal funding. Participants cited examples of how federal land swaps or creative thinking about how to use federal lands could develop additional economic value. Ensuring that New Mexico, the tribes and local governments are adequately compensated for fulfilling federal mandates also is a key issue.

Resource Utilization and Community Building Strategies

1. Challenge New Mexico and its leaders to be aggressive in identifying and requesting strategic exchanges, leases, access rights and policies regarding use or acquisition of federal lands especially to provide land needed for business location and expansion.
2. Develop a comprehensive statewide plan for reforming and reprioritizing state capital spending to maximize the state's capacity and ability to leverage federal dollars, prioritize state infrastructure projects and fully fund each project.
3. Work with the congressional delegation and federal agencies to strategically use federally owned non-tribal lands through exchanges, leases, transfer of development rights, or other mechanisms to increase the economic viability of New Mexico communities.
4. Re-evaluate funding formulas so that funding is fairly allocated amongst states based on current demographics and emerging trends to meet special needs such as those associated with border issues, Homeland Security, immigration, public safety, transportation, and healthcare.
5. Meet funding obligations to tribes and counties and make proper funding mandatory versus discretionary.
6. Create a more diversified approach to leveraging federally funded programs, such as Department of Agriculture, Department of Education, Department of Transportation, and others that are not defense-related and not necessarily within the mission of the federal research laboratories.



Guidance to Implementation Team

At the conclusion of the Plenary Session of the Town Hall, a statement was adopted to give guidance to the Implementation Team responsible for developing and promoting actions to accomplish outcomes consistent with the strategies developed at the Town Hall:

Create, communicate and implement a strategic plan to address opportunities and vulnerabilities in federal resources and investments in New Mexico. The plan will be based on the recommendations of the 2005 New Mexico First Town Hall 33 and will create a road map for state leadership and the congressional delegation with consensus from a nonpartisan, statewide “leadership council” appointed by the Governor and State Legislature. The plan should be ready for implementation within no more than two years to take advantage of our current senatorial seniority.

Town Hall 33 Implementation Team

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- **Christensen, Jacqueline** Greater Albuquerque Area Chamber of Commerce
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- **Radosevich, Carol** Public Service Company of New Mexico
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- **Selwyn, Dawn** Bureau of Indian Affairs
- **Talnack, Marie** Small Business Development Center
- **Tangri, Manjeet** City of Albuquerque Planning Department
- **Travelstead, Coleman** Technology Ventures Corporation/Tech. Comm. – The National Journal
- **Whitehurst, Charlie** Technology Research Corridor
- **Whitmore, Eric** University of New Mexico
- **Zamora, Rudy** Building Trades Council of New Mexico

The Implementation Team will develop an implementation plan and begin its work of communicating specific actions to be taken during the summer of 2005. The first meeting of the Implementation Team will take place on July 21, 2005, at the offices of Technology Ventures Corporation. More information can be obtained by calling New Mexico First at 505-241-4815. Progress of the Implementation Team effort will be communicated to members, the media and public officials. Check the New Mexico First website, www.nmfirst.org for updated information.

Marc Christensen
Director of Research &
Program Development
June 2005

New Mexico First

Town Hall 33

April 28-30, 2005
Albuquerque, New Mexico

The Management and Future of Federal Investment in New Mexico

RESEARCH REPORT
Prepared by

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The Bureau of Business and Economic Research supports its economic research activities with contracts and grants. We would not have been able to undertake the extensive research this project has required without a promise of funding for our proposed research from the Office of the Vice President for Research and Economic Development. We would like to express our appreciation to Dr. Terry Yates, Vice President for Research and Economic Development, for the financial support his office has given this research effort.

Background research for this document has involved many people. On BBER staff, we wish to thank Lory Cooperstock for putting together the maps included in this document. We also appreciate the efforts of Jeremy Cook, who researched federal procurement contracts and federal mineral leasing and who assisted with the coding of federal programs. Chapter 3 benefited greatly from the conceptual framework suggested by Dr. Jeff Mitchell. BBER Data Bank Staff, Kevin Kargacin, Larry Compton and Karma Shore were always there ready to assist with data questions and suggest information sources. Among our students, Colette Smith provided able assistance with document preparation.

In our first meeting with the New Mexico First Research Committee we heard an excellent presentation by Dr. Tom Palmieri on the federal budget process. Dr. Palmieri has an insider's perspective, having held temporary staff assignments in the US Senate and having worked at the Office of Management and Budget (OMB) as a branch chief in charge of DOE programs. At the group's request, Dr. Palmieri wrote the paper which has been incorporated into this document as Chapter 3. It provides a very readable and helpful primer on the federal budget process for New Mexicans who would attempt to effect changes in federal programs and/or in the flow of federal funds to New Mexico. BBER staff extends appreciation to Dr. Palmieri for this important addition to the document.

Finally, BBER staff offers a special thank you to all of those who helped us to better understand this complex topic. Among others, the following people and organizations graciously shared their time and knowledge with us:

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Introduction

MANAGING THE FEDERAL PRESENCE IN NEW MEXICO

There are many reasons for holding a Town Hall on the Federal Government presence in New Mexico.

1. The federal government unquestionably plays an enormous role in the State's economy, operating through many complex channels that are not well understood.
2. After a brief experience with federal budget surpluses, the federal deficit now exceeds \$400 billion – 3.8% of Gross Domestic Product -- and requires sizeable annual interest payments to service the debt. Pressure to reduce the deficit while funding the war on terrorism and making certain tax cuts permanent is placing severe pressure on the federal budget.¹
3. The federal government under the Bush administration is undergoing fundamental changes that will affect the future flow of dollars to the New Mexico and may mean significant differences in how programs are administered, if indeed they survive the budgetary axe.
4. The Base Realignment and Closure Commission will be presenting its recommendations for the next round of closures and consolidations in May 2005.
5. The contract to run Los Alamos National Laboratory is being put out to bid after years of management by the University of California.
6. Finally, the State's two Senators, both of whom have considerable seniority and influence after long and very successful careers in office, will, at some point, likely in the next decade, retire, thus significantly reducing New Mexico's influence in the U.S. Senate.

In short, New Mexico cannot afford to be complacent. The State receives enormous flows from the federal government. Consider the following:

1. Federal spending in New Mexico amounted to \$18.7 billion in Fiscal Year 2003, four times the recently adopted state budget.
2. Federal spending, directly and indirectly, contributes 25% of the New Mexico Gross State Product.
3. Federal spending directly and indirectly supports 38% of New Mexico jobs and compensation.

¹ President Bush's 2006 Budget would hold discretionary spending increases to 2%, which is less than inflation, while mandatory programs, most of which are entitlements, would be allowed to increase only 1%. Defense discretionary programs would increase almost 5%, Homeland Security, 3%, while all other discretionary programs would be allowed to increase by less than 1%. The Budget proposal does not include additional spending on our forces and contractors in Iraq, as these expenditures will be covered in a supplemental budget request.

4. About \$5.5 billion of the \$18.7 billion is invested in our national laboratories, Sandia, Los Alamos and the Phillips Site, and in research at the State's universities.
5. Of the \$18.7 billion, only about \$2.7 billion flows through the state government, the balance being received directly by individuals, by educational institutions, by local government entities, and by private for-profit and non-profit organizations.
6. Of the \$18.7 billion, 6 major program areas account for 84% of the spending:
 - (1). National Research Labs: \$5.2 billion
 - (2). Social Security & Federal Retirement: \$3.7 billion
 - (3). Health Care: \$3.0 billion
 - (4). Military Bases: \$2.3 billion
 - (5). Income Maintenance: \$1.2 billion
 - (6). Sponsored Research at Universities: \$0.35 billion
 (Spending in all other categories = approximately \$2.25 billion)
7. New Mexico leads the nation in the federal spending returned, \$2 for every \$1 in taxes sent to Washington.
8. New Mexico ranks # 4 in the per capita receipt of federal funding, amounting to about \$10,000 for every New Mexican.
9. New Mexico ranks # 10 among the states in the percent of total land under federal ownership – 34.1% versus the national average of 29.6%.

On the other hand, despite this generous flow of federal dollars, New Mexico consistently ranks at the bottom in terms of per capita income, with the latest figures indicating the state is once again 47th among the 50 states. Our average annual wages are 80% of the US. We consistently rank at the top in terms of the percentage of the population and the percentage of children below the official poverty level. A very large percentage of our population is without the benefit of health insurance.

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

- While New Mexico ranks high in receipt of federal funds, per capita income remains low as compared to other states. Does this suggest that somehow federal funds could be better “invested” in order to grow more jobs and businesses in New Mexico? If so, what strategies might work?
- Are requests for federal funds well managed in the state, i.e. is there good coordination, and are there state or private agencies that work collaboratively to ensure that New Mexico has the best chance of receiving funds? Is there room for improvement and if, so, what strategies might work?
- Has New Mexico done a good job of developing contingency plans in the event that a major source of federal funding was lost? If there's room for

improvement, what might be done and who should pull such a planning effort together?

- What strategies and actions might be taken to capture more of the procurement work in New Mexico³ and to transfer technologies developed at our national laboratories? What critical ingredients are missing – lack of qualified businesses, workforce training, managerial talent, access to capital?
- Priorities for federal funding seem to be shifting. What do we know about these shifts? How real are they and are there opportunities for New Mexico (i.e. the focus on Homeland Security is mentioned by some as a possible new area for New Mexico to address)?
- Are there certain kinds of federal dollars that seem to have greater impact than others and what are they? How does New Mexico capitalize on retaining or expanding these kinds of funds?

In an effort to stimulate meaningful discussion and debate on these and other questions, the Town Hall will assign participants to one of three panel subject areas:

Viable Communities

Consider the role that federal funding plays in developing and supporting our communities as places in which to live, to invest, and to do business, including:

1. Facilities: military bases, court houses, postal service, other agencies
2. Land and resources : maintenance of federal lands, recreation, tourism, environmental protection
3. Infrastructure: roads, highways, mass transit, aviation, water supply, waste water, schools, parks, housing
4. Income Support: Social security, TANF, Food Stamps, federal employee retirement (military and civilian), agricultural subsidies
5. Public Safety: Homeland security, law enforcement, detention facilities, emergency management, disaster recovery
6. Health Care: Medicare/Medicaid payments to local providers, clinics, rural programs, disease prevention and control, drug abuse prevention and treatment
7. Native American services: health care, revenue sharing, education

Viable Businesses, Viable Economies

Consider the role that federal funding plays in developing and supporting our economies and in developing new technologies and new markets, including:

1. Research and development, technology transfer: national laboratories, contracts and grants for university research, federal funding/incentives for private sector R&D, SBIRs

³ Research indicates that only 60 - 65% of the procurement dollars actually stay in New Mexico.

2. Business development: SBA, other grant and loan programs, market creation (technology transfer, procurement,), tax policies, technical assistance, procurement
3. Energy development: research and development, tax incentives, technology transfer
4. Federal lands: use of lands (extractive industries), use for economic development (new/alternative uses), tourism/recreation, Native American land use and development

Viable Workforce

Consider the role that federal funding plays in developing and supporting our current and future workforce, including:

1. Nutrition and health: infant and child nutrition, school lunch
2. Pre-School, K-12, Post-Secondary Education: programs, loans and assistance, teacher training, Title I
3. Training: workforce investment, training subsidies, impact assistance, vocational training
4. Access: programs for those with disabilities, training for special needs, ADA compliance assistance, programs targeted at women and minorities, job locators, job search assistance, veterans assistance
5. Work Support: child care, transportation subsidies, targeted assistance and training, bilingual education, migrant support.

This report is intended to a background for the discussions which will take place in each of the panels on each subject area. The first chapter presents an overview of the federal presence in New Mexico. The second chapter takes a look at the New Mexico economy today and then tries to quantify the economic impacts of federal spending on the State's economy. The third chapter is a primer on the federal budget process with insights on how things work and where one might try to effect changes. The fourth chapter is organized to provide background and perspective for each of the three panel subject areas as well as offering a conceptual framework for thinking strategically about maximizing the impact of federal spending.

Chapter 1

OVERVIEW OF THE FEDERAL PRESENCE IN NEW MEXICO

Since 1846 when General Stephen Kearney captured Santa Fe in the war with Mexico, the influence of significant federal government presence in New Mexico has been felt. This presence has shaped not only our economy but our way of life. World War II resulted in a significant build up of federal facilities and programs, starting in 1943 when the federal government built Los Alamos as the center for atomic research. The need for extensive flight support and test facilities reasonably near Los Alamos led to the September 1945 move of units of the Z Division of Los Alamos Laboratory to Sandia Base. This is the predecessor of Sandia National Laboratories, with continuing responsibilities in terms of the development and testing of nuclear weapons. The Armed Forces Special Weapons Project was created at Sandia Base to coordinate military nuclear activities. Other responsibilities followed. The Trinity Site, then part of the Alamogordo Bombing and Gunnery Range, was chosen to test the plutonium bomb developed by the scientists at Los Alamos. Crews began arriving at the site in the fall of 1944.

Meanwhile, to meet the needs of the war effort, the Alamogordo Bombing and Gunnery Range was training bomber crews, and the newly named Kirtland Army Air Field gained a reputation for training entire flight crews for the B-17, B-24, and later the B-29 bombers. Clovis Army Air Field (later called Cannon AFB) also became a training center, offering flying, bombing, gunnery and photographic reconnaissance classes until the end of World War II. New Mexico's remoteness, its distance from the coast, and its small population combined with a terrific resource, its airspace, to make it an attractive location for siting flight training programs as well as for developing and testing new weapon systems.

The economy of New Mexico in this early period was dominated by agriculture, primarily ranching, and by mining. The federal presence loomed large.

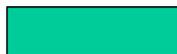
Some 60 years later, the federal government continues to play significant roles in the economic activity of the state. Figure 1.1 below illustrates the various channels through which the federal government influences the economy of the state as a whole and those of New Mexico communities. The first channel is through the dollars that flow to the state from federal expenditures: (1) retirement and disability payments to individuals (e.g., social security); (2) other direct payments to individuals (e.g., Medicare); (3) direct payments other than to individuals (e.g., Indian school equalization); (3) grants (block, formula, project, and cooperative agreements) to governments, individuals and businesses (e.g., Community Development Block Grants); (4) federal procurement (e.g., defense contracts); and (5) wages and salaries for federal government civilian and military employees. Next are the various loans and insurance programs that the federal government provides to individuals (e.g., student loans), to individual businesses (e.g., crop insurance), and to government entities

(loans for water and waste disposal systems). Less visible perhaps but very important are the various incentives and

Figure 1.1

FEDERAL PRESENCE IN NEW MEXICO

FEDERAL GOVERNMENT



FEDERAL EXPEDITURES

Retirement & Disability Payments
Other Direct Payments to Individuals
Direct Payments Other than to Individuals
Grants

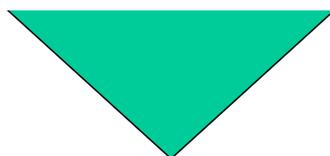
Procurement Contracts

Federal Employment and Earnings

FEDERAL LOANS & INSURANCE

TAX POLICY BENEFITS

OWNERSHIP OF LAND & FACILITIES



NEW MEXICO

inducements that the federal government provides through its tax policies (e.g., personal income tax mortgage interest deduction, accelerated depreciation of equipment). Finally, and critically, are the roles played by the federal government as the owner of lands and resources and as the owner/operator of major facilities (e.g., military bases).

FEDERAL EXPENDITURES

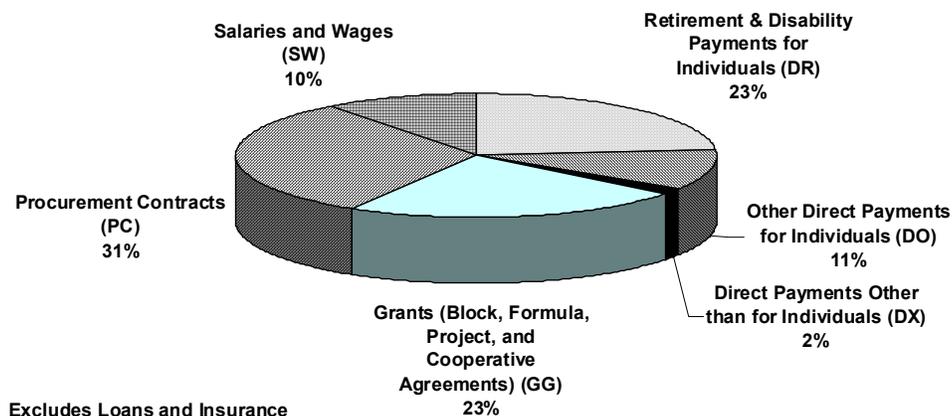
Composition

In Federal Fiscal Year 2003 (FY03), the federal governments expenditures in New Mexico totaled \$18.7 billion. Figure 1.2 is a pie chart illustrating the composition of these expenditures. Note that the biggest slice of federal expenditures – 31% -- involves procurement under which the federal government purchases various goods and services to support the federal mission. Table 1.1 on the next page examines the biggest federal programs for each of the categories illustrated in the pie chart. Note that the Department of Energy accounted for \$4.2 billion or 73% of the procurement dollars coming to New Mexico entities in FY 03. Much of this funding was for two federal laboratories, Sandia National Laboratories (Sandia NL), which is run by Lockheed Martin and Los Alamos National Laboratories (LANL), which for many years has been managed by the University of California. Major DOD contractors included Honeywell International and New Mexico Technology Group (Newtec). It is important to

Figure 1.2

**TOTAL FEDERAL DIRECT EXPENDITURES OR OBLIGATIONS IN
NEW MEXICO, FY 03**

TOTAL DIRECT EXPENDITURES OR OBLIGATIONS = \$18,735,880,477



Source: US Census Bureau

note that while the payments for procurement contracts are made to New Mexico entities, the dollars stay in New Mexico only to the extent that the work is performed here and not performed by an out-of-state subcontractor or at the prime contractor's facilities elsewhere. Review by UNM Bureau of Business and Economic Research (BBER) of technical studies on the New Mexico labs and other facilities indicates that, on average, only about 60 - 65% of the procurement dollars stay in the state.

The most important category after procurement is retirement and disability payments, which in FY 03 amounted to \$4.4 billion, or 23.4% of total federal government expenditures. Social security payments to retirees amounted to \$1.7 billion, or 39% of the total for this category. Other social security payments – to those with disabilities and to surviving spouses – totaled more than \$1 billion (24% of category expenditures), with federal military and civilian retirement accounting over \$900 million (21%).

Grants --- block grants, those distributed on the basis of formulas, individual project, and cooperative agreements – accounted for \$4.3 billion, or 23.1% of total federal government expenditures in New Mexico. Grants are an award of financial assistance in the form of money, or property in lieu of money, provided directly by the federal government. Unlike loans, there is no obligation to repay the funds received as a grant. The biggest single program classified under grants is the Medical Assistance Program (Medicaid), which, in FY 03 alone, brought \$1.6 billion into the State, with an additional \$60 million for the State Children's Insurance Program (CHIP). Almost \$400 million was received for Highway Planning and Construction from the Federal Highway Administration, while some \$300 million were shared revenues from the Interior Department, primarily mineral leasing payments to the State.

Table 1.1
MAJOR PROGRAMS WITHIN EACH CATEGORY OF EXPENDITURE, FY 03

	<u>\$ Amount</u>	<u>% of Category</u>
TOTAL FEDERAL EXPENDITURES IN NEW MEXICO, FY 03	18,735,880,477	100.0%
RETIREMENT & DISABILITY PAYMENTS FOR INDIVIDUALS	4,387,915,393	23.4%
SOCIAL SECURITY DISABILITY INSURANCE	487,483,825	11.1%
SOCIAL SECURITY RETIREMENT INSURANCE	1,715,422,666	39.1%
SOCIAL SECURITY SURVIVORS INSURANCE	558,516,085	12.7%
FEDERAL RETIREMENT AND DISABILITY PAYMENTS--MILITARY	385,260,000	8.8%
FEDERAL RETIREMENT AND DISABILITY PAYMENTS--CIVILIAN	532,562,268	12.1%
	<hr/>	83.8%
OTHER DIRECT PAYMENTS FOR INDIVIDUALS	1,992,137,565	10.6%
FOOD STAMPS	183,505,382	9.2%
FEDERAL PELL GRANT PROGRAM	100,300,888	5.0%
MEDICARE-HOSPITAL INSURANCE	633,649,749	31.8%
MEDICARE-SUPPLEMENTARY MEDICAL INSURANCE	556,878,669	28.0%
UNEMPLOYMENT COMPENSATION BENEFIT PAYMENTS	152,919,002	7.7%
FEDERAL GOVERNMENT PAYMENTS FOR EXCESS EARNED INCOME TAX CREDITS	312,940,000	15.7%
	<hr/>	97.4%
DIRECT PAYMENTS OTHER THAN FOR INDIVIDUALS	288,635,770	1.5%
INDIAN SCHOOL EQUALIZATION PROGRAM	24,420,600	8.5%
FEDL EMPLOYEE LIFE/HEALTH INSURANCE PREMIUM PMTS--EMPLOYER SHARE	113,753,328	39.4%
TEMPORARY STATE FISCAL RELIEF FUND	30,929,000	10.7%
	<hr/>	58.6%
GRANTS (BLOCK, FORMULA, PROJECT& COOPERATIVE AGREEMENT)	4,322,271,190	23.1%
HIGHWAY PLANNING AND CONSTRUCTION	396,124,881	9.2%
SECTION 8 HOUSING CHOICE VOUCHERS	89,714,999	2.1%
SPECIAL EDUCATION-GRANTS TO STATES	152,158,422	3.5%
NATIONAL SCHOOL LUNCH PROGRAM	60,971,324	1.4%
TITLE I GRANTS TO LOCAL EDUCATION AGENCIES	73,511,427	1.7%
HEAD START	66,226,739	1.5%
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	122,512,662	2.8%
MEDICAL ASSISTANCE PROGRAM	1,605,649,778	37.1%
STATE CHILDREN'S INSURANCE PROGRAM (CHIP)	60,992,493	1.4%
IMPACT AID	86,552,193	2.0%
INTERIOR DEPT--SHARED REVENUES WITH STATES (INCL MINERAL LEASING ACT)	297,905,000	6.9%
	<hr/>	60.5%
PROCUREMENT CONTRACTS	5,818,971,729	31.1%
PROCUREMENT CONTRACTS--DEPT OF DEFENSE	955,369,076	16.4%
PROCUREMENT CONTRACTS--DEPT OF ENERGY	4,229,723,000	72.7%
PROCUREMENT CONTRACTS--U.S. POSTAL SERVICE	68,365,691	1.2%
PROCUREMENT CONTRACTS--ALL OTHER FED GOVT AGENCIES	565,513,962	9.7%
	<hr/>	100.0%
SALARIES AND WAGES	1,925,948,830	10.3%
SALARIES AND WAGES--DEPT OF DEFENSE (ACTIVE MILITARY EMPLOYEES)	447,699,000	23.2%
SALARIES AND WAGES--DEPT OF DEFENSE (INACTIVE MILITARY EMPLOYEES)	49,935,000	2.6%
SALARIES AND WAGES--DEPT OF DEFENSE (CIVILIAN EMPLOYEES)	285,688,000	14.8%
SALARIES AND WAGES--ALL FED GOVT CIVILIAN EMP EXCEPT DEFENSE & USPS	889,622,314	46.2%
SALARIES AND WAGES--U.S. POSTAL SERVICE	252,419,501	13.1%
	<hr/>	100.0%

Source: US Census Bureau, Consolidated Federal Funds, FY 03

The third biggest category was Other Direct Payments for Individuals with \$2.0 billion in expenditures, 10.6% of the total. Included in this category were \$1.2 billion in Medicare payments to providers, \$184 million in Food Stamps, and \$100 million in Pell Grants for students enrolled in NM colleges and universities.

Salaries and Wages for federal civilian and military employees amounted to \$1.9 billion, or 10.3% of total federal expenditures. Direct Payments Other Than for Individuals totaled almost \$300 million, or 1.5% of the total. The biggest single item was the federal employer share of health and retirement for federal government employees -- \$113 million.

Figure 1.3 looks at the federal agency composition of federal expenditures in New Mexico. Not surprisingly, four agencies dominate: Energy, Health and Human Services, Social Security Administration, and Defense.

Figure 1.3

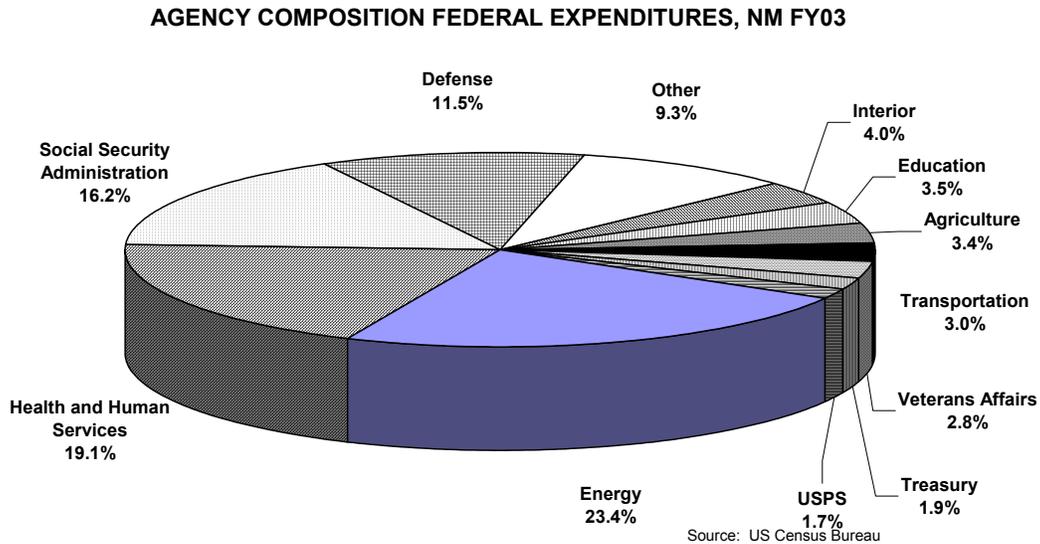
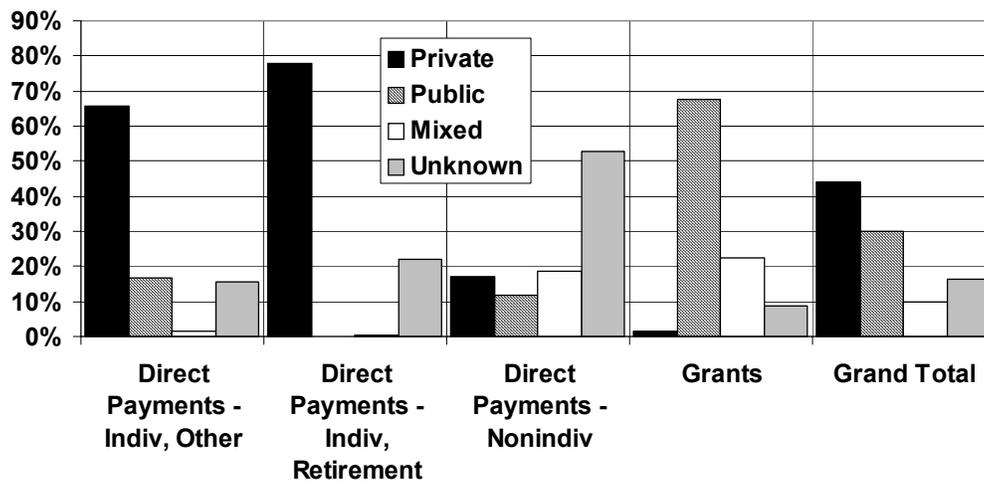


Figure 1.4 examines whether the recipients for each non-procurement category of federal expenditure are private or public or both. This has implications for the development of strategies for economic development. Note the predominance of public among the recipients of grants.

Figure 1.4

RECIPIENTS OF FEDERAL FUNDS



Source: US Census Bureau

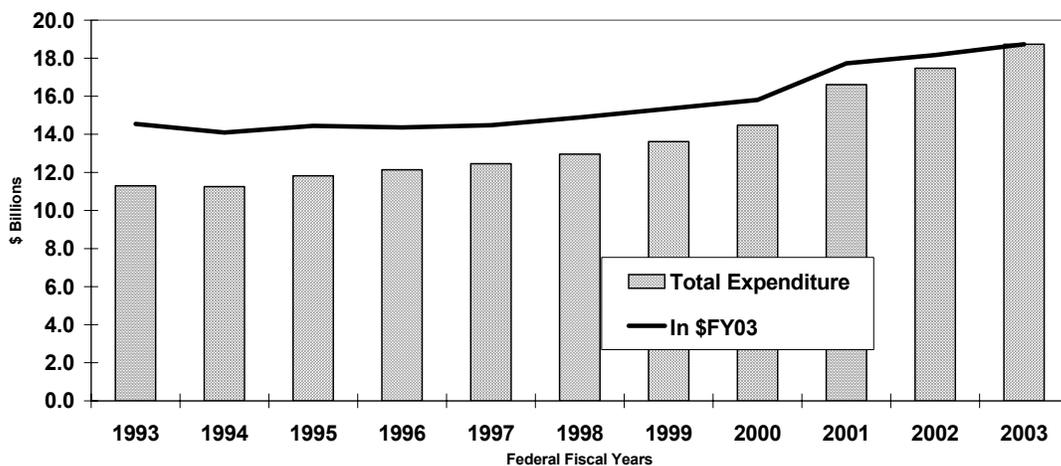
As noted above, many of the grant dollars in particular are destined for public sector entities. About \$2.7 billion in federal funds were received by State agencies during the State Fiscal Year 2003. The Human Services Department, which administers the huge Medical Assistance Program as well as TANF and Food Stamp, received almost three-quarters of the federal funds received by the State. The State Transportation Department accounted for about 11% of the funds received, while Children, Youth and Families accounted for just under 5% and the Health Department, 3.4%. At the same time, this means that nearly \$16 billion in funds do not flow through the state government but go directly to other entities and individuals. This raises questions as to how well pursuit of federal funding is coordinated in the state, whether there are duplicative requests, and whether priorities are well understood.

Trends Over Time

Figure 1.5 examines the growth in total federal expenditures in New Mexico since FY93. The height of the bars represents total federal expenditures in each of the fiscal years in current dollars, that is, before adjusting for inflation. The solid line shows what the annual expenditures would have been in FY03 dollars. Note that overall spending was relatively flat in real terms (FY03 dollars) until 2001, when there was a noticeable increase. Over the 10 years from 1993 to 2003, federal spending in New Mexico increased 66% before adjusting for inflation and 29% in real terms.

Figure 1.5

**TOTAL FEDERAL EXPENDITURES IN NEW MEXICO
In Current and in \$FY03**

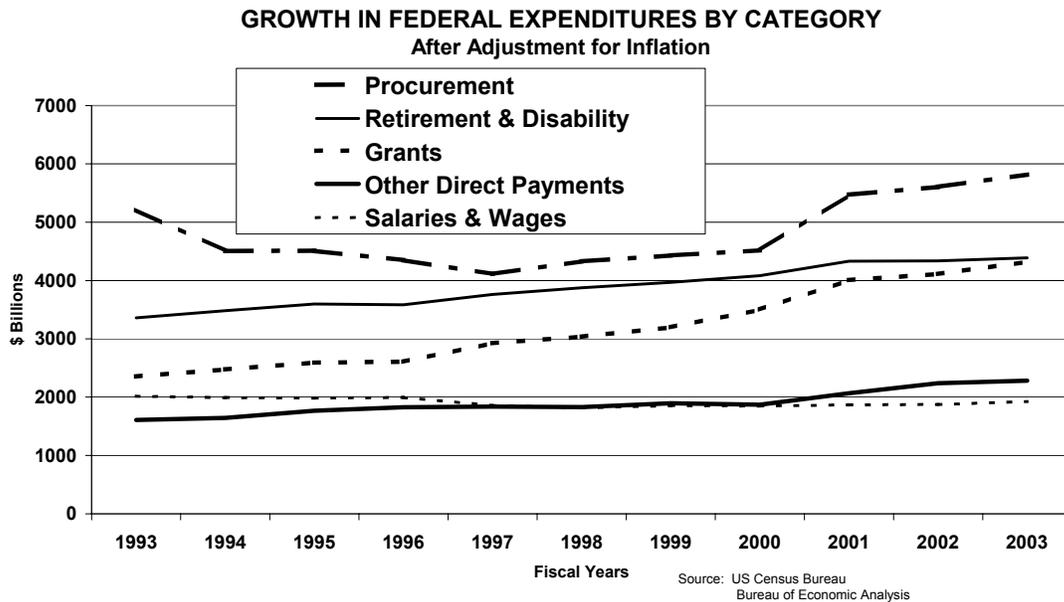


Source: US Census, Consolidated Federal Funds Report, FY03
Bureau of Economic Analysis, Price Index Federal Expenditures

Figure 1.6 shows total spending by major category after adjusting for inflation. Note that the category accounting for the fastest growth has been Grants, which is represented by the heavy dotted line. Procurement, represented by the heavy line of dashes and dots, fell in real terms between 1993 and 1997, with major workforce

reductions at LANL and also at Sandia NL, and then increased dramatically in 2001. Retirement and Disability payments grew steadily in real terms in the 1990's, as generally did Other Direct Payments. Federal Wages and Salaries have been at best fairly flat in real terms.

Figure 1.6



In FY 03, the five top programs in terms of expenditures in New Mexico were Department of Energy procurement, Social Security, Medicaid, Medicare and Department of Defense procurement. Figure 1.7 illustrates the trends in DOE and DOD and other procurement since FY 93 after adjusting for inflation.

Figure 1.8 is from another source, the US Bureau of Economic Analysis data on transfer payments to individuals, and it shows the history since 1969 of payments made to/for New Mexican residents for Social Security, Medicare and Medicaid. Medicaid payments include State as well as federal dollars, until this year at a federal match rate of 3 to 1.⁴ The figures are adjusted for inflation (2003 dollars). Note the exponential growth of Medicaid. If this trend continues, Medicaid will outpace Social Security in the next few years.

⁴ The federal match is now 71%, reportedly because of the increase in New Mexico per capita income.

Figure 1.7

**FEDERAL PROCUREMENT IN NEW MEXICO
IN MILLIONS OF FY 03 DOLLARS**

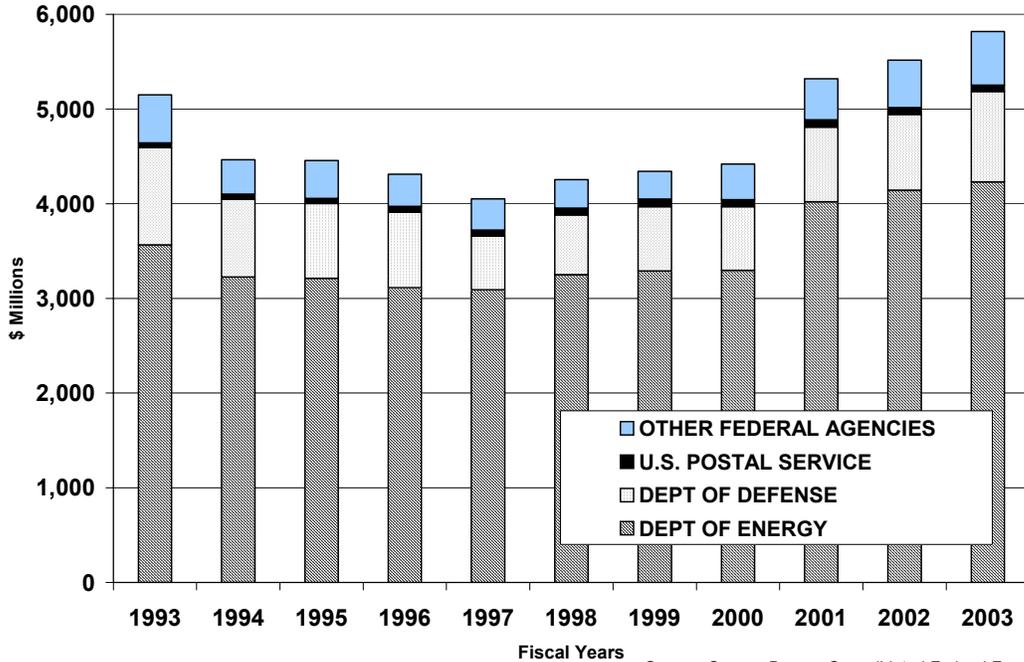
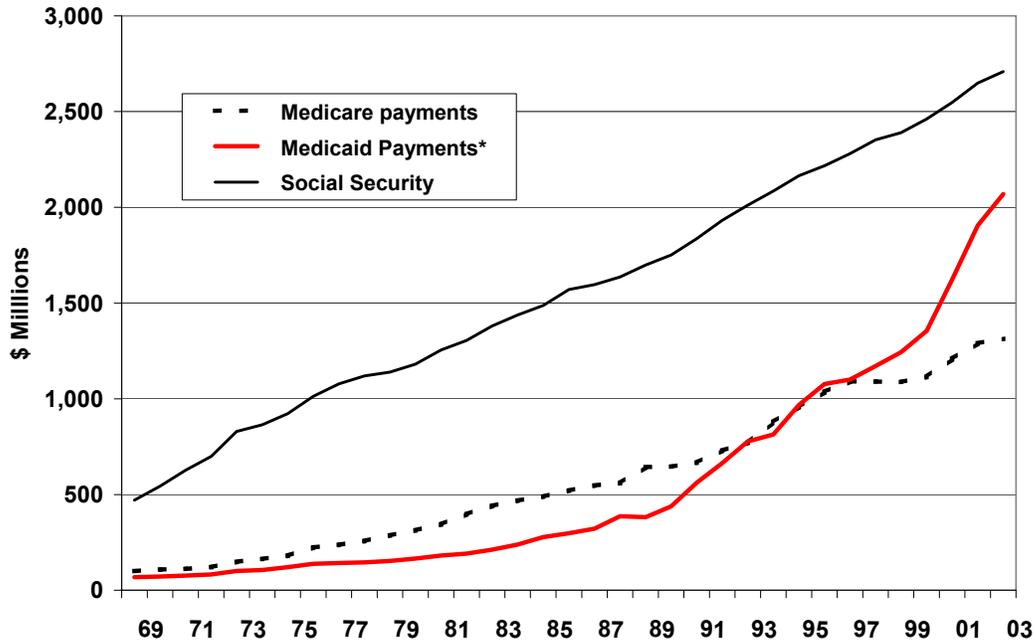


Figure 1.8

**MEDICARE, MEDICAID AND SOCIAL SECURITY PAYMENTS
TO/FOR NEW MEXICANS (\$ 2003)**



* Consists of medicaid and other medical vendor payments from State and Federal Monies (3:1 match federal to state) Source: Bureau of Economic Analysis

New Mexico Compared with Other States

In FY 03, New Mexico ranked 33rd among the states in total federal government expenditure. Table 1.2 provides figures on how New Mexico ranks in terms of per capita federal spending, spending per dollar of federal taxes paid and per capita income when compared with other states. Note that New Mexico ranked 4th among the states in the total level of federal expenditures per capita and was 2nd in procurement dollars per capita, 5th in grants and 6th in salaries and wages, while 20th in retirement and disability and 41st in other direct payments to individuals. New Mexico was, and usually has been, first in terms of federal expenditures per dollar of federal taxes paid. New Mexico ranked 47th in per capita income.

Table 1.2
NEW MEXICO'S RANKINGS AMONG THE STATES

	<u>Rank in FY 03</u>
Per Capita Federal Spending:	
Total Federal Government Expenditure, FY 03	4
Retirement and Disability	20
Other Direct Payments	41
Grants	5
Procurement	2
Salaries and Wages	6
 Total Federal Expenditures Per Dollar of Taxes	 1
 Per Capita Income	 47

Source: U.S. Census Bureau, Consolidated Federal Funds Report for Fiscal Year 2003, Table 14.
Tax Foundation, State-by-State Tax Burden Allocation Model
US Bureau of Economic Analysis

Given the comparisons with other states shown in Table 2, one cannot help but ask “why”. The table raises a number of interesting questions. Consider New Mexico’s number 1 ranking in federal expenditures per dollar paid in federal taxes. The implication might seem to be that NM is getting far more back for its tax dollars than other states. On the other hand, if federal spending has been a good deal for New Mexico, why does the state continue to rank at the bottom in terms of per capita income (47th in 2003) and at the top in terms of poverty?⁵ To what extent does New Mexico’s number 1 ranking simply reflect the state’s low income levels and consequent lower tax liability and higher payments for social welfare programs like Medicaid? New Mexico has significant federal high technology resources, including the DOE National Laboratories, the Air Force Research Laboratory, and the Very Large Array. To what extent are these federal facilities enclaves with limited

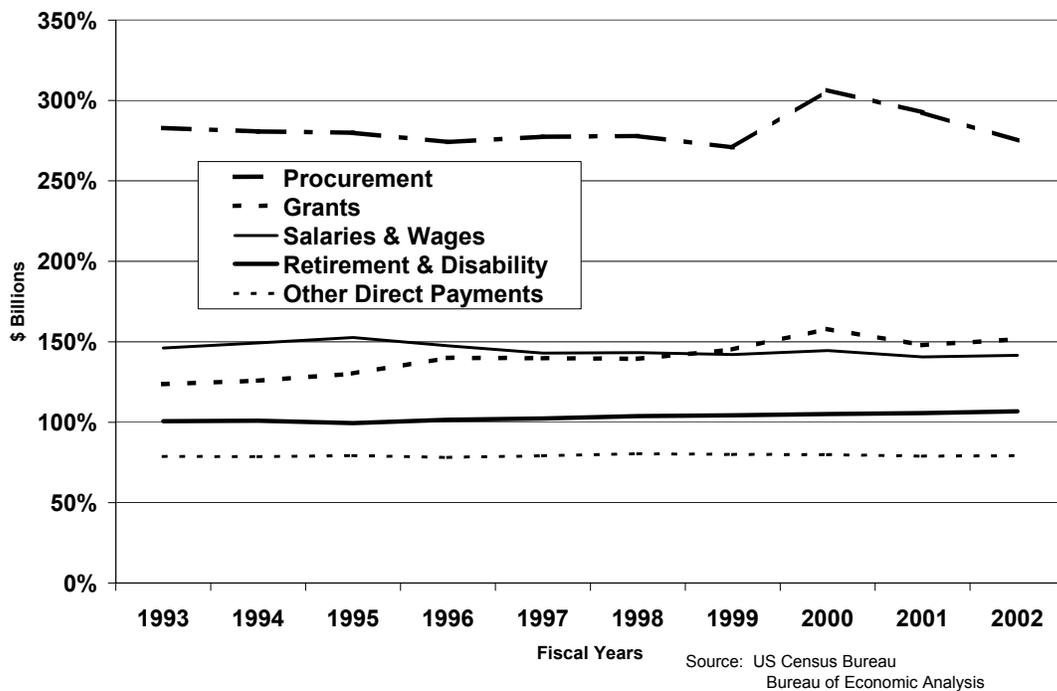
⁵ US Census Bureau, *Current Population Survey*

linkages to the rest of the New Mexico economy? In other words, has federal spending been adequately translated into economic development or is additional work needed to ensure that today's spending results in tomorrow's jobs? Are there actions that New Mexico can take to harness federal dollars and the federal presence in the state toward sustainable economic development?

As noted above, New Mexico rankings in terms of federal expenditures have remained relatively constant over time. Figure 1.9 presents data since FY94 on NM federal expenditures per capita as a percent of US spending per capita. Note that NM federal procurement per capita has generally been almost 3 times the national average, although New Mexico has lost ground in recent years. Salaries and wages and grants have each run about one and a half times the national average. Retirement and disability are right at the national average. Other direct payments are below – about 80% of the national average --, primarily because of low Medicare reimbursement rates.

Figure 1.9

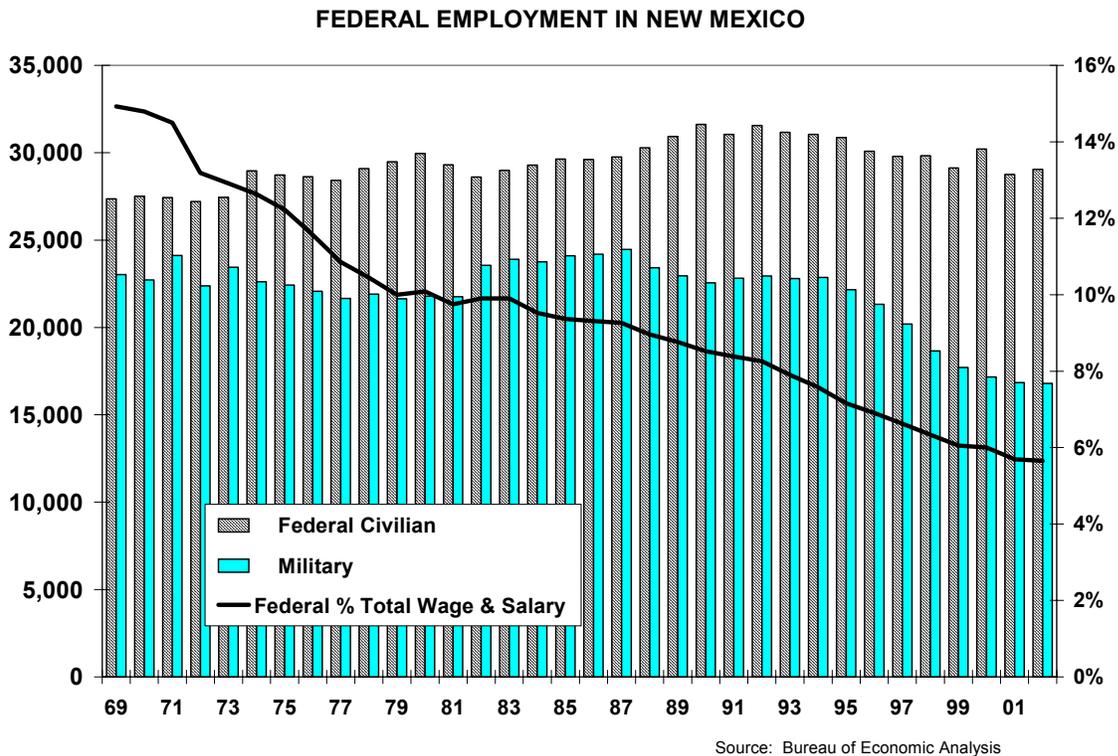
**PER CAPITA FEDERAL EXPENDITURES IN NEW MEXICO
AS A PERCENT OF THE US AVERAGE**



Federal Civilian and Military Employment

Figure 1.10 presents the data on federal civilian and military employment, looking both at total federal jobs and federal employment as a percent of total wage and salary employment. Federal civilian employment in New Mexico increased over the first two decades depicted but has registered declines in almost every year since

Figure 1.10



1989. (See the striped bars in Figure 1.10, left axis.) NM survived relatively unscathed during the base re-alignments and closures of the 1990s. In 1995, Kirtland was listed for a major realignment that would have meant the loss of thousands of military and civilian jobs, but Kirtland was dropped from the list after recalculation of the costs and benefits indicated an unfavorable cost impact for the realignment proposal. While New Mexico thus dodged the bullet and avoided base closures, total military employment has fallen in almost every year since 1987. (Solid bars in Figure 1.10.) The solid line in Figure 1.10 looks at total federal military and civilian employment as a percent of total wage and salary employment. The percentage share is measured on the right axis. Overall, federal employment has declined absolutely and relative to other wage and salary jobs in the New Mexico economy. Federal jobs, which accounted for some 15% of total wage and salary employment in 1969, comprised less than 6% of payroll employment in 2002, the latest year for which data is available.

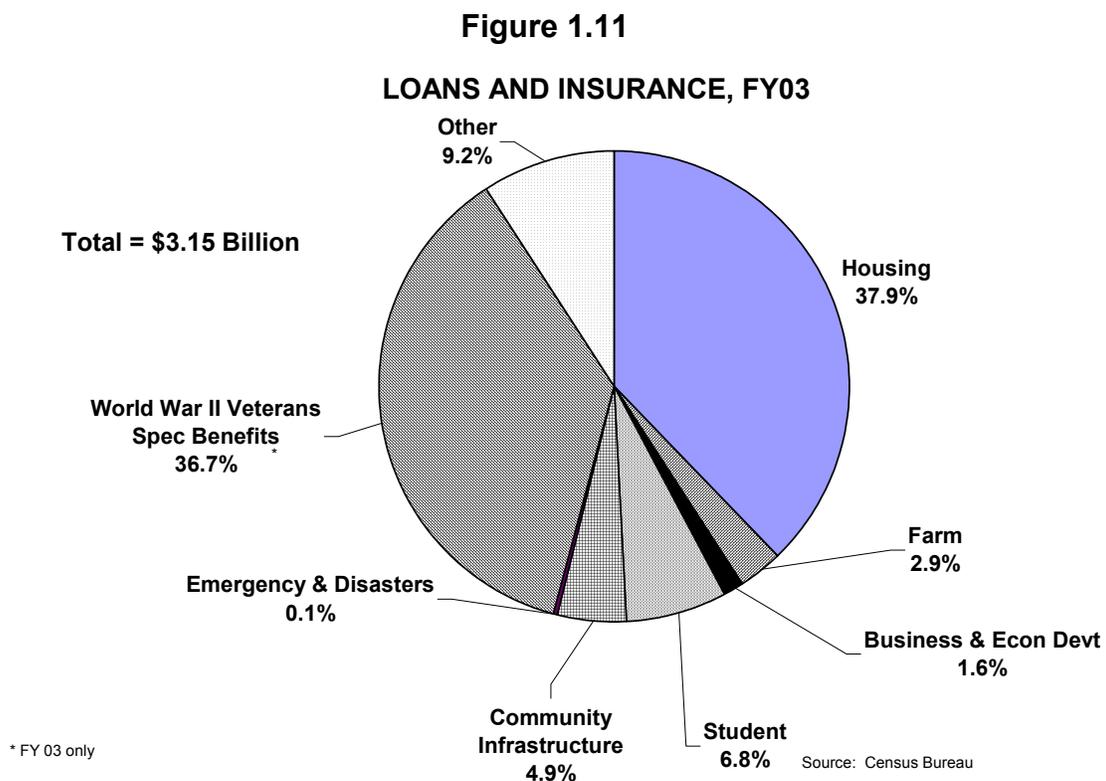
Because federal workers in New Mexico generally earn more than other workers, they account for a disproportionately larger share of total wage and salary worker earnings. In 2002, when federal workers were less than 6% of payroll employment, their earnings accounted for more than 10% of the earnings of all wage and salary employees in the state. This figure is down from nearly 19% in 1969.

Federal jobs and payroll are less important today to the overall economy than they once were. New Mexico has lost federal jobs and associated payroll over the years, and the rest of the economy has grown up around the federal presence. However, as mentioned earlier, New Mexico ranks 47th in terms of per capita income.

FEDERAL LOANS AND INSURANCE

In addition to the \$18.7 billion in expenditures, the federal government in FY03 provided \$3.15 billion in federal loans and insurance for individuals, for families, for businesses and for communities. This aid included \$1.6 billion in guaranteed loans, some 68% of which went for home mortgages; \$171 million for direct loans, primarily student loans; and \$1.3 billion for insurance, primarily FEMA flood insurance.⁶

Figure 1.11 looks at the composition of loans and insurance by purpose. Mortgages and mortgage insurance accounted for the largest piece, although a close second was the one time special benefits provided to World War II Veterans.



⁶ Flood insurance through FEMA was the major program in the Insurance category. The National Flood Insurance Program enables property owners in participating communities to buy flood insurance at a chargeable premium rate that is generally lower than the normal actuarial rate.

As the above suggests, federal loans and insurance vary from one year to the next. In real terms, the federal commitments for these programs have roughly doubled over the decade, but the growth has been concentrated in housing.

Loans and Insurance constitute an important source of support from the federal government. As indicated above, loans may be either direct or guarantees. Direct loans are defined as financial assistance provided through the lending of federal monies for a specific period of time. Direct loans may or may not require the payment of interest. Guaranteed / Insured loans are programs in which the federal government makes an arrangement to indemnify a lender against part or all of any defaults by those responsible for the repayment of loans. Insurance is financial assistance provided to assure reimbursement for losses sustained under specific conditions. Coverage may be provided directly by the federal government or through private carriers and may or may not involve a premium.

Unlike the other sources of federal expenditures in New Mexico, the values reported by the CFFR for loans and Insurance are not always actual expenditures associated with the loan or insurance programs. For example, guarantees made on borrowed funds are only collected if the borrower defaults. Much of the funding provided to support the home-buyers, small businesses, and students are made by lenders and guaranteed by the federal government. As will be seen in Chapter 4, this is a valuable group of federal programs. However, the dollars in the CFFR for these programs are not comparable to the dollars listed for federal expenditures for the simple reason that they do not represent an actual inflow to the state. The dollars for loan guarantees are meaningful as a flow to the state only in the event of a default. Insurance only pays in the event of a loss. Thus, although there were over \$3 billion in loans and insurance guarantees made in the state, the actual inflow to the state was in all likelihood considerably less..

Table 1.3 shows three categories of federal loan and insurance – direct loans, guaranteed loans, and insurance. Shown additionally are the major programs within each of these categories. Notable in the direct loan category is the assistance provided to students and that to help low and moderate income families obtain housing. Guaranteed loans and insurance represent a contingent liability incurred by the federal government but are not an inflow to the state⁷. While these may not be actual inflows to the state, the importance of these programs is indicated by the dollar values associated with items such as home mortgage insurance and rural electrification loans and the mammoth amount in place for flood insurance.

⁷ Payments made on claims are shown under direct payments in the CFFR.

**Table 1.3
FEDERAL LOANS & INSURANCE FY03**

Program	Amount
<u>Direct Loans</u>	
Student loans	134,773,399
Very low to moderate income housing loans	9,265,133
Water & waste disposal for rural communities	8,887,879
Farm operating	7,162,127
All other direct	<u>10,867,340</u>
Sub total	170,955,878
<u>Guaranteed Loans</u>	
Mortgage insurance homes	1,077,907,890
Veterans housing guaranteed & insured loans	166,100,889
Rural electrification loans & loan guarantees.	104,956,208
Federal family education loans	99,494,261
All other guaranteed	<u>181,283,931</u>
Sub total	1,629,743,179
<u>Insurance</u>	
Flood insurance	1,256,393,571
Crop insurance	70,944,725
Life insurance for veterans	13,604,000
Bond guarantees for surety companies	<u>3,566,416</u>
Sub total	1,344,508,712
 Total Loans & Insurance	 3,145,207,769

Source: BBER analysis of CFFR, FY03

UNM Bureau of Business and Economic Research, 2005

FEDERAL TAX POLICY

Federal expenditures and loans and insurance generally have a favorable impact on the state's economy, increasing overall economic activity by increasing what is spent on goods and services produced within the state. The federal taxes paid by New Mexicans and by New Mexico businesses, on the other hand, are outflows from the state's economy. These outflows, or "leakages", generally reduce the dollars that can be spent within the state on locally produced goods and services.

According to the Tax Foundation, New Mexicans and New Mexico businesses paid an estimated \$8.7 billion in federal taxes in FY 2003. The largest flows were personal income tax payments (\$3.9 billion) and payments for social insurance (\$3.5 billion). The federal corporate income tax generated \$661 million, while \$484 million was paid in federal excise taxes, \$101 million in customs, and \$61 million in estate taxes.

Several provisions of the federal tax code reduce the tax liability of some New Mexicans and New Mexican businesses. These are tax expenditures and they should be viewed as federal subsidies. Quantifying tax expenditures for a particular state is very difficult.

- **State and Local Tax Deductibility** -- High-income tax payers who itemize receive a 30% (top federal PIT rate) refund on their state and local income and property taxes.⁸
- **Mortgage Interest Deductibility** -- Homeowners can take a mortgage interest deduction on their personal income taxes if they itemize their deductions. The deduction can be taken for the homeowner's primary residence and for one vacation property. In this way, the federal government subsidizes home ownership and helps support the housing and real estate industries.
- **EITC and Child Credits** -- These refundable cash credits, which taxpayers can receive even if they have limited or no tax liability, go to lower-income workers and families. The effect is to give lower income households more discretionary income that they can use for retail purchases and living expenses.
- **Child/Dependent Care Credits** -- The credits are limited and typically cover only a fraction of the cost of providing care, but they are available to households without regard to income. These credits may be viewed as providing subsidies to the home health care and child care industries, but they also help families make ends meet by offsetting some of the expenses associated with having a job outside the home.
- **Depreciation and Investment Deductions** -- Levels of investment and economic activity are supported by these tax incentives. The deductions particularly benefit those industries selling equipment --retail, wholesale, manufacturing – as well as those which have large needs for equipment.

To give some sense of the dollars involved, Internal Revenue Service data for 2001 (in FY 03 dollars) indicate that the total credits taken by New Mexican taxpayers on their personal income taxes, including the childcare credits and the earned income tax credit as well as certain credits available to those who report self-employment income, amounted to almost \$900 million. However, \$286 million of this amount, the refundable or excess portion of the earned income tax credit, has already been counted as part of federal expenditures under Direct Payments to Individuals.

Total itemized deductions (only itemized deductions are eligible) for calendar 2001 amounted to \$4.6 billion and saved New Mexico taxpayers an estimated \$742 million in

⁸ Beginning in tax year 2004, taxpayers filing an itemized return may choose whether to apply the state and local tax deduction to their state and local income taxes or to the estimated sales taxes paid during the year as well as to property taxes.

taxes. Of this amount, \$213 million, or 29%, reflected the tax savings due to federal tax deductibility of State and local income and property taxes. In essence, the federal government is paying part of the state and local taxes collected. The savings accrue to the higher income tax payers in New Mexico who get to count a portion of the State and local tax payments against their federal tax liability. In Table 1.4 below, a single taxpayer with income of \$146,750 (simple case assumes no adjustment, other deduction, or credits) would owe \$9,315 in NM income tax but the federal government, through the itemized deduction, would subsidize \$2,608 of that amount, or about 27%.

Table 1.4

**FEDERAL TAX DEDUCTIBILITY FOR NEW MEXICO TAXPAYERS:
CASE OF A SINGLE FILER**

Federal Tax Brackets (Single)			Federal Tax Rate	NM Income Tax	Federal Subsidy
0	to	7,150	10%	147	15
7,150	to	29,050	15%	1,311	197
29,050	to	70,350	25%	4,120	1,030
70,350	to	146,750	28%	9,315	2,608
146,750	to	319,100	33%	21,035	6,941

Using 2004 NM PIT rates and 2004 IRS rates; no other adjustments or credits taken

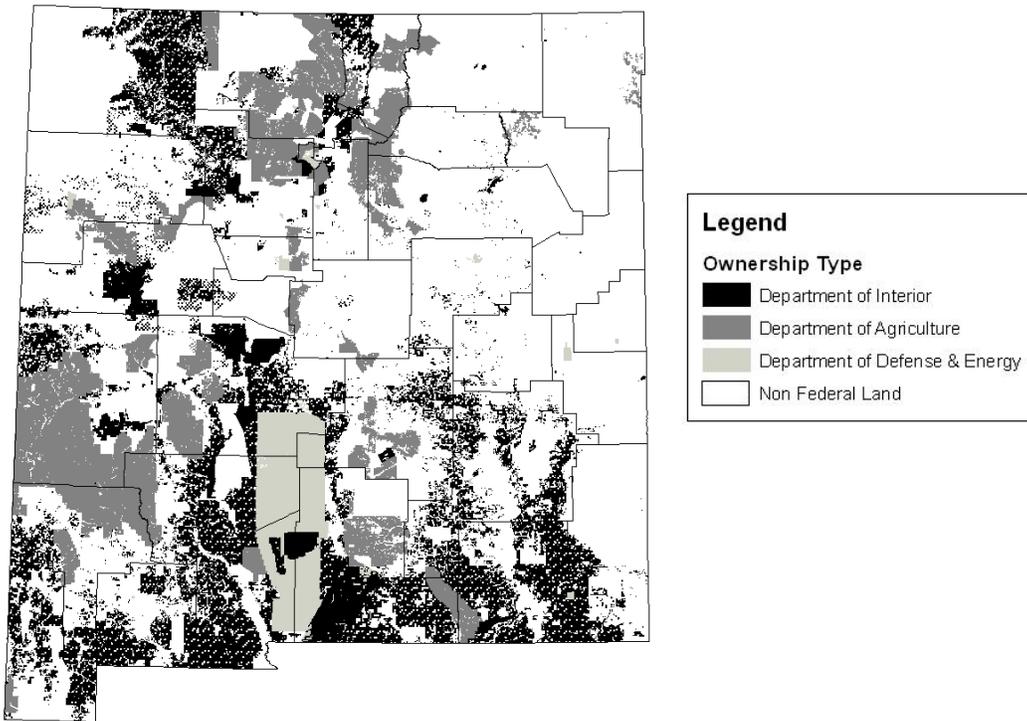
The property tax accounts for a little more than one-fifth of the total federal deduction for New Mexico taxes paid. New Mexico with its low property taxes derives much less benefit from federal tax deductibility than do other states.⁹ New Mexico has benefited from the deductibility of income. Some of this benefit would be lost as marginal State personal income tax rates are reduced. However, beginning in 2004, federal law allows taxpayers the option of deducting an estimate of State and local general sales taxes (including the gross receipts tax) instead of income taxes. For New Mexico, this is a fortuitous change in the law.

OWNERSHIP OF LAND AND RESOURCES

The Federal government and federal government agencies have vast land holdings in New Mexico. Figure 1.12 is a map of these federal holdings. Note the concentration of federal land ownership in the south and southwestern counties of the state and in the north and northwestern counties. By contrast, some counties on the east side have

⁹ For FY 97, according to a study on the Tax Foundation website, New Mexico ranked 48th and 49th respectively for property taxes imposed by local governments per capita and per dollar of personal income. The ranking for State property taxes was 14th by both measures but the high ranking is more a reflection of the limited use of this revenue source by other states. The per capita and per dollar of personal income rankings were unchanged from the 1980's.

FEDERAL OWNERSHIP OF LAND BY AGENCY

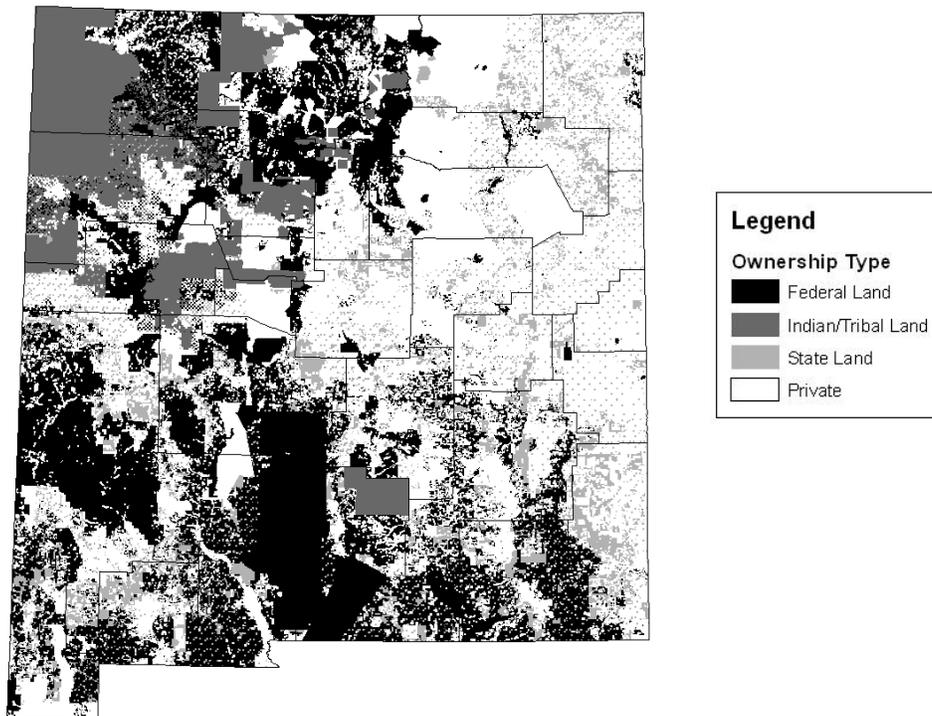


(Bureau of Land Management, National Park Service), by the Department of Defense (military bases), and by the Department of Energy (LANL and the WIPP site).

Figure 1.14 puts the federal land ownership in a larger context, by showing State lands and Indian lands.

Figure 1.14

LAND OWNERSHIP IN NEW MEXICO BY TYPE

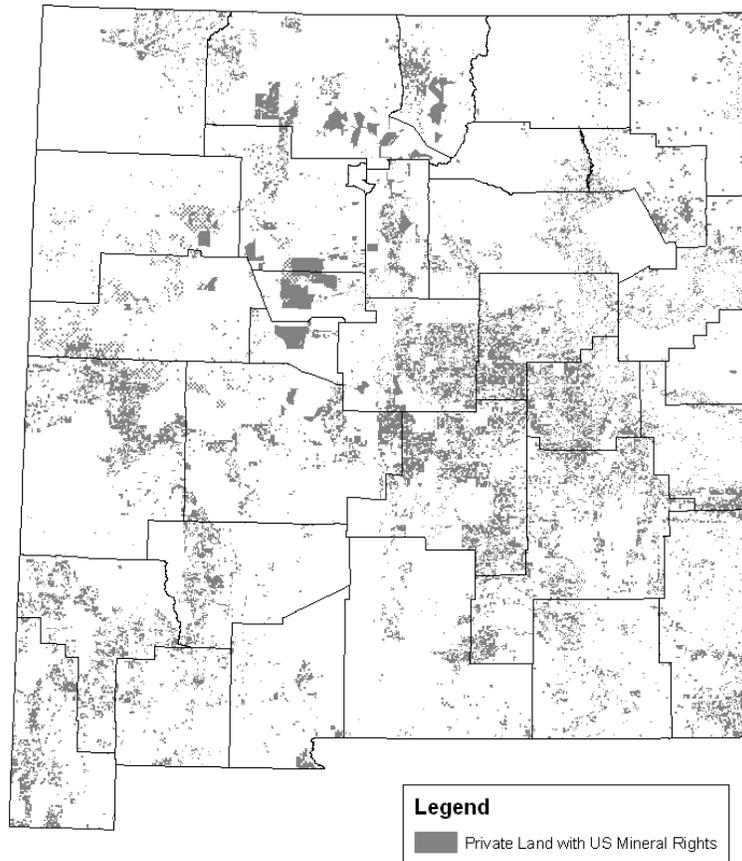


The vast land area owned by the federal government in New Mexico somewhat understates federal control of New Mexico resources. Even when the land is under private ownership, the mineral resources underground may be owned by the federal government, which can lease the rights to mine those resources. These are the so-called “split-estate federal minerals”. The lands where the federal government owns and has leased mineral rights are usually lands that were homesteaded out, typically ranchlands, and many of them are adjacent to the national forests and Bureau of Land Management lands. Conflicts between ranchers and local residents and the extractive industries -- over access to private lands, over drilling and extraction methods, over restoration, and over impairment of water resources -- are becoming increasingly common.

Of the 36 million acres of lands holding federally owned minerals, 26.5 million acres are federally owned surface rights with the additional 9.5 million acres falling to private ownership. On the 9.5 million acres that are split estate ownership (private surface rights, federal mineral rights) the federal government controls the leasing and usage of those rights. Figure 1.15 maps the private land across the state with US mineral rights:

Figure 1.15

PRIVATE LAND WITH US MINERAL RIGHTS



Proximity to federal lands, resources and facilities can be an important asset to a community, perhaps providing scenic vistas as well as lands for grazing, for hunting and fishing, and for various forms of recreation and a wealth of resources, including timber and other forest products, minerals and also water. Federal lands/resources and facilities can generate jobs and income, serving as a significant driver of the local economy. The extractive uses of federal land and resources, including timber, generate royalties and fees for the State.

FEDERAL ACTIVITY ACROSS THE COUNTIES

Table 1.5 on the next page provides detail on federal expenditures for all New Mexico counties in FY03. The table presents the per capita federal expenditures by category and indicates how each county ranks relative to other counties. The last two columns of the table present the 2002 per capita income amounts and the corresponding county rankings. Note that Los Alamos, with LANL capturing a very large inflow of

Table 1.5

NEW MEXICO COUNTIES FY03 PER CAPITA FEDERAL EXPENDITURES AND 2002 PER CAPITA INCOME

	Per Capita Federal Expenditures												Per Capita Income 2002	
	Total Federal Expenditures		Retirement and Disability		Other Direct Payments		Grants		Procurement		Salaries and Wages		\$ Amount	Ranking
	\$	Ranking	\$	Ranking	\$	Ranking	\$	Ranking	\$	Ranking	\$	Ranking		
Bernalillo	11,579	3	2,524	14	874	19	1,599	18	4,933	2	1,649	3	30,204	3
Catron	8,060	17	3,816	3	691	26	1,775	16	492	11	1,287	5	15,769	30
Chaves	5,816	25	2,514	15	1,002	16	1,719	17	224	14	357	22	22,727	9
Cibola	4,548	30	1,787	30	377	33	839	33	800	10	745	10	16,221	29
Colfax	5,952	24	2,962	10	1,102	14	1,512	22	147	17	230	28	21,961	11
Curry	9,291	6	2,492	17	1,384	7	1,527	21	921	8	2,967	2	23,984	6
DeBaca	8,135	14	3,704	4	1,670	5	2,315	12	113	22	332	23	20,299	17
Dona Ana	6,813	21	2,080	24	851	20	1,443	25	1,634	5	805	7	20,573	15
Eddy	8,416	10	2,510	16	1,138	13	1,574	19	2,661	3	534	13	23,763	8
Grant	6,448	22	3,215	6	1,167	10	1,548	20	123	21	396	20	19,762	19
Guadalupe	12,299	2	2,353	21	1,154	12	8,268	1	102	24	423	18	14,415	33
Harding	10,902	4	4,084	2	2,369	2	3,436	6	202	15	809	6	17,107	28
Hidalgo	8,078	16	3,213	7	1,347	8	3,027	9	30	31	461	16	17,471	26
Lea	4,699	29	2,015	28	1,257	9	1,283	29	27	33	116	32	22,503	10
Lincoln	5,354	27	2,928	11	750	23	1,287	28	125	20	264	27	21,289	12
Los Alamos	111,022	1	1,601	33	537	32	1,330	26	106,750	1	803	8	48,485	1
Luna	5,514	26	2,719	13	1,034	15	1,288	27	176	16	298	25	17,195	27
McKinley	8,166	13	1,611	32	668	28	3,366	7	931	7	1,590	4	15,299	31
Mora	9,000	7	2,722	12	827	22	4,952	2	76	28	424	17	15,028	32
Otero	10,043	5	2,988	9	677	27	1,071	30	2,133	4	3,173	1	19,459	22
Quay	8,620	8	3,211	8	2,278	3	2,765	10	58	29	309	24	19,314	23
Rio Arriba	7,034	20	2,060	26	936	18	3,293	8	326	12	419	19	19,537	20
Roosevelt	7,415	19	2,165	22	2,906	1	2,084	14	86	27	174	30	23,792	7
San Juan	4,706	28	1,954	29	560	31	1,023	31	49	30	163	31	25,211	4
San Miguel	7,947	18	1,721	31	726	25	1,473	24	137	18	649	11	20,511	16
Sandoval	3,748	33	2,146	23	1,163	11	4,279	3	93	26	265	26	19,851	18
Santa Fe	8,601	9	2,380	18	649	29	3,994	4	1,059	6	520	14	32,932	2
Sierra	8,133	15	4,214	1	1,573	6	1,854	15	105	23	386	21	19,207	24
Socorro	8,282	12	2,062	25	956	17	3,912	5	816	9	536	12	18,577	25
Taos	6,299	23	2,374	20	730	24	2,366	11	315	13	514	15	20,912	13
Torrance	4,398	31	2,034	27	587	30	1,479	23	101	25	197	29	19,521	21
Union	8,377	11	3,387	5	1,917	4	2,190	13	128	19	754	9	24,751	5
Valencia	4,358	32	2,375	19	837	21	1,010	32	28	32	107	33	20,598	14
New Mexico	9,995		2,341		1,217		2,306		3,104		1,027		24,823	

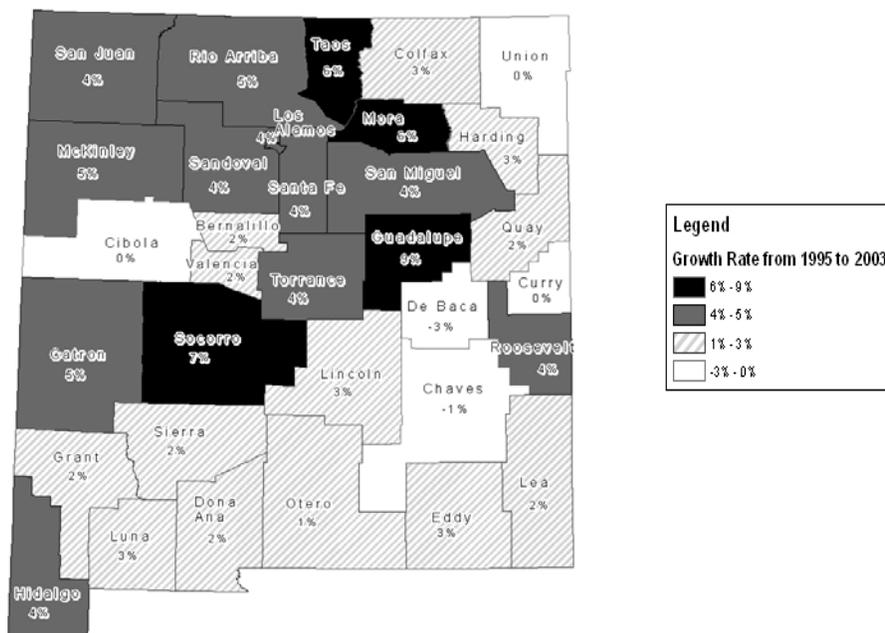
Source: US Bureau of Economic Analysis, State and Local Per Capita Income, 2002; US Census Bureau, Consolidated Federal Funds Report for Fiscal Year 2003

procurement dollars, has the highest per capita federal expenditures and that it also has the highest per capita income. By contrast, Guadalupe County, which is ranked second in terms of per capita federal dollars, had the lowest per capita income among the counties. Guadalupe County's high ranking reflected a very large volume of grants per capita. Almost \$40 million of the federal grants flowing to Guadalupe County came from two federal agencies, Health and Human Services and Transportation. (See Appendix B for detail on each of the counties.) As is true nationally, there appears to be little if any correlation between the total amount of federal funds received and a county's per capita income. Once again, this raises a question as to how federal dollars translate into economic development and whether there are certain federal program dollars that have a more significant impact in terms of growing the economy than others.

Figure 1.16 below maps the growth in federal expenditures by county between FY 95 and FY 03.

Figure 1.16

**GROWTH IN FEDERAL EXPENDITURES BY COUNTY
FISCAL YEARS 1995 - 2003**

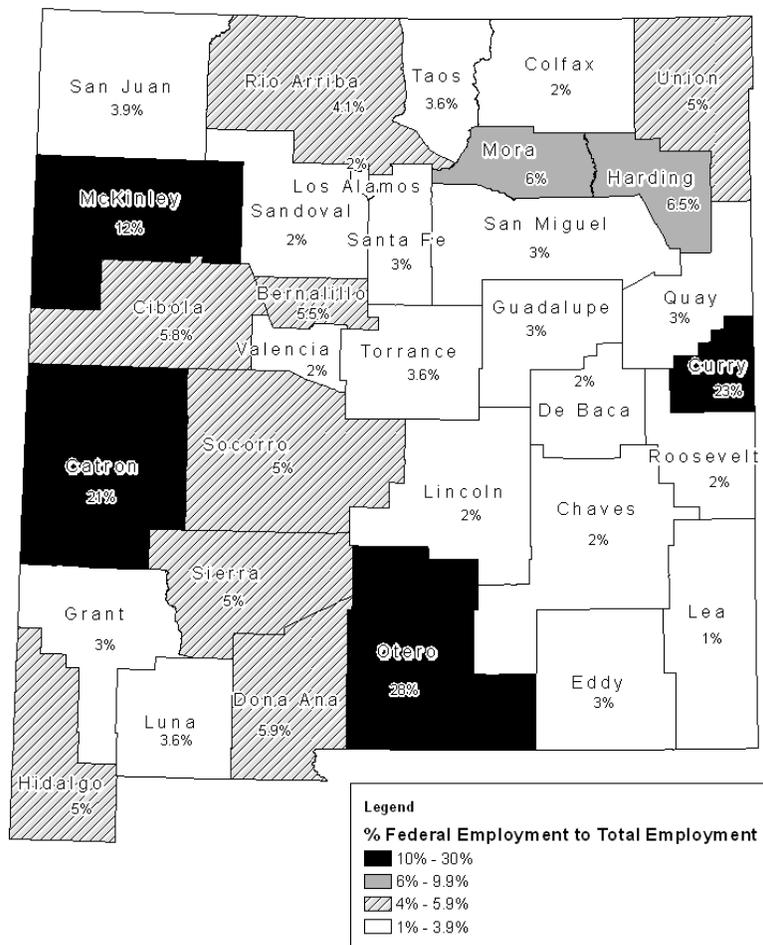


More details on flows of federal dollars to each of the counties and the top five agencies responsible for these expenditures can be found in Appendix 1.A.

Reliance on federal government employment and wage and salary income varies considerably across the state. As Figure 1.17 illustrates, in Otero, Catron, McKinley, and Curry Counties, federal jobs, civilian and military, comprise from 11% to 30% of all wage and salary jobs.¹⁰ In the cases of Otero and Curry County, the jobs are associated with military bases. On the other end of the spectrum, in more than half of the counties (18), federal government employment accounts for at most 4% of the wage and salary jobs. The statewide average is 6%. It should be noted that the comparison is made with total wage and salary employment to reflect the importance of the federal government as an employer. Many people are self-employed. Indeed, in Catron County, farm and non-farm proprietors make up 54% of total employment.

Figure 1.17

2002 FEDERAL EMPLOYMENT AS A SHARE OF TOTAL WAGE AND SALARY EMPLOYMENT

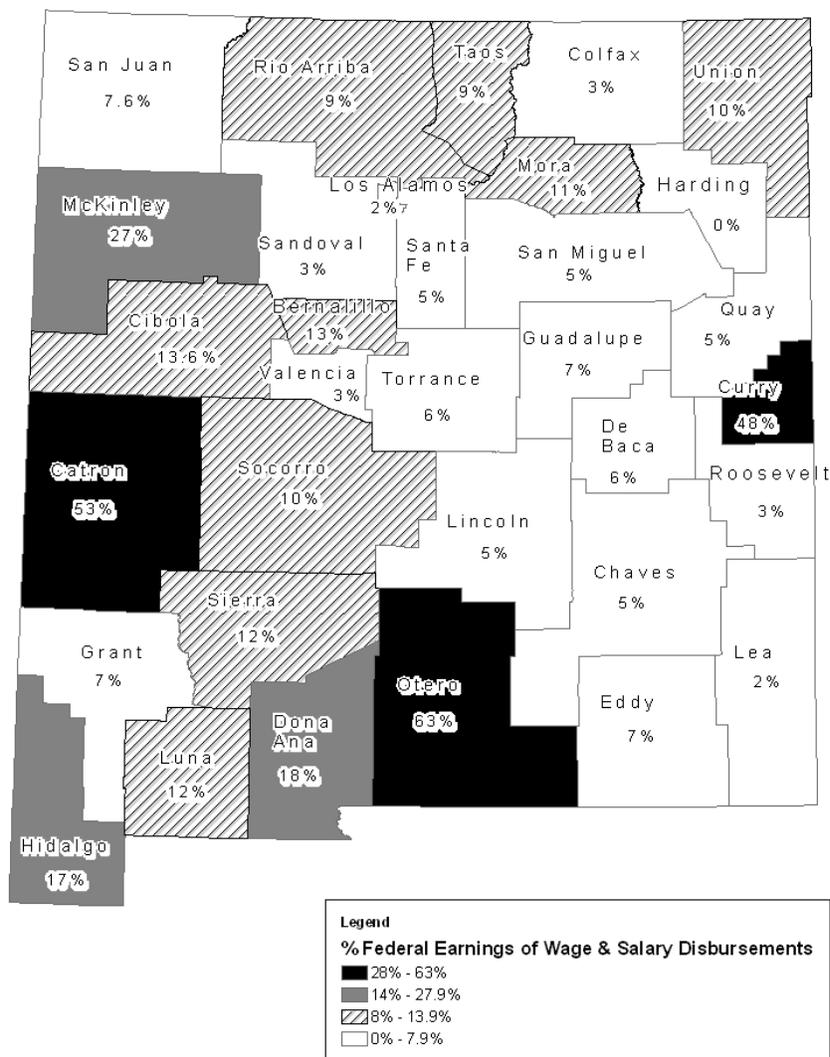


¹⁰ It is important to note that farm and nonfarm proprietors – the self-employed – are not included in this calculation.

Because federal jobs typically compensate more generously than private sector jobs, the local dependence on the federal government is somewhat understated by the figures on employment. Figure 1.18 presents a map showing county dependence on federal earnings as a share of total earnings for wage and salary workers. Note that in eight counties federal earnings constitute 11% or more of total payroll employee earnings. In Catron County, where opportunities for wage and salary employment are limited, the figure is close to 50%. On the other hand, there are only seven counties in which earnings from federal employment count for 4% or less of total wage and salary worker earnings.¹¹

Figure 1.18

2002 FEDERAL EARNINGS AS A SHARE OF THE TOTAL EARNINGS OF WAGE AND SALARY EMPLOYEES



¹¹ In Los Alamos County, LANL salaries are University of California, not Federal.

Chapter 2

ECONOMIC IMPACT OF FEDERAL FUNDING ON NEW MEXICO

Chapter 1 presented figures on total federal expenditures in the State of New Mexico. This chapter examines the economic impact of these federal expenditures on the economy of New Mexico. The first section provides a snapshot of the New Mexico economy using various measures of economic performance. The second section presents a traditional economic impact analysis of the impact of federal spending on the New Mexico economy. The third section looks at the impacts of different types of federal expenditures.

THE NEW MEXICO ECONOMY TODAY

Employment

In 2004, total employment – farm and nonfarm, payroll and self-employed, civilian and military -- in New Mexico approached 1 million. Table 2.1 provides the details on the sectoral composition of employment in New Mexico and the Albuquerque MSA, which now includes Bernalillo, Sandoval, Tarrant and Valencia Counties, and offers a comparison with the US. Federal civilian and military employment is highlighted.

Table 2.1

COMPOSITION OF TOTAL ESTIMATED EMPLOYMENT, 2004
ALBUQUERQUE MSA, NEW MEXICO, US

	Albuquerque MSA		New Mexico		United States	
	Number	% of Total	Number	% of Total	1000s	% of Total
Natural Resources & Mining	a	a	14,992	1.9	591	0.4
Construction	25,755	6.9	50,117	6.3	6,964	5.3
Manufacturing	22,600	6.1	35,908	4.5	14,329	10.9
Wholesale Trade	12,800	3.5	22,133	2.8	5,655	4.3
Retail Trade	42,942	11.6	92,258	11.7	15,035	11.4
Trans, Warehousing and Utilities	10,492	2.8	23,283	2.9	4,820	3.7
Information	9,442	2.5	14,625	1.8	3,138	2.4
Financial Activities	19,167	5.2	34,592	4.4	8,052	6.1
Professional and Business Services	59,225	16.0	90,275	11.4	16,414	12.5
Educational and Health Services	45,175	12.2	102,458	13.0	16,954	12.9
Leisure and Hospitality	36,342	9.8	82,667	10.5	12,479	9.5
Other Services	11,917	3.2	29,075	3.7	5,431	4.1
Federal Government	14,033	3.8	29,658	3.8	2,728	2.1
State Government	24,042	6.5	67,300	8.5	4,985	3.8
Local Government	36,800	9.9	101,383	12.8	13,905	10.6
Total Nonfarm Employment	370,732	100.0	790,724	100.0	131,480	100.0
Total Nonfarm Employment	370,732	82.5	790,724	79.4	131,480	80.2
Non-Farm Proprietors (Self-Employ) b	69,600	15.5	167,200	16.8	27,429	16.7
Total Farm Employment b	2,450	0.5	21,300	2.1	3,075	1.9
Estimated Military Employment c	6,692	1.5	16,800	1.7	1,954	1.2
Estimated Total Employment	449,474	100.0	996,024	100.0	163,938	100.0

a Combined with construction for reporting purposes.

b Bureau of Economic Analysis estimates for 2002.

c New Mexico numbers were forecast using the FOR-UNM model. US figures are Bureau of Economic Analysis estimates for 2002.

Source: New Mexico Department of Labor, US Bureau of Labor Statistics, US Bureau of Economic Analysis

The two accounted for less than 5% of estimated total employment for New Mexico and the Albuquerque MSA and less than 3% of estimated total employment in the US. Of course these figures dramatically understate the employment supported by the flow of federal dollars into New Mexico. Sandia NL and LANL alone have some 20 thousand workers on their payroll or under contract.

The New Mexico economy has become much more diversified over time. While ranching is still the way of life in some communities, the farm sector today accounts for a little over 2% of all employment in the state, down from 5.5% in 1969. The natural resources and mining industries account for less than 2% of total New Mexico nonfarm employment -- a large percent only when contrasted with the US figure of 0.4% --, although this is still a very important industry for some regions of the state and is a major generator of revenues for State government. Mining employment peaked at 5.5% of total employment in 1981. New Mexico has never had a large presence of manufacturing industry, and in 2004 manufacturing accounted for less than 5% of payroll jobs versus almost 11% nationally. In contrast with the nation as a whole, where manufacturing jobs in 1969 accounted for 22.5% of total employment, twice the share today, manufacturing in New Mexico has maintained its share of total employment.

Government at all levels plays a larger role in the New Mexico economy than is true elsewhere in the country. Government jobs account for fully one quarter of all nonfarm

payroll jobs in the state, versus 16% nationwide. The federal figures have already been mentioned. State jobs are 8.5% of nonfarm employment in New Mexico versus 3.8% nationally. These state jobs in New Mexico include employment at LANL, which is operated by the University of California. The state in New Mexico has also assumed responsibilities that elsewhere are delegated more to local governments or assumed by the private sector (e.g., higher education). State employment has grown as enrollments at higher educational institutions have expanded with the advent of the lottery scholarship program. Local government employment now includes tribal employment and has experienced rapid growth from the expansion of the casinos.

Personal Income

Total personal income in New Mexico in 2004 is estimated to be almost \$50 billion. Figure 2.1 on the next page provides the breakdown by sources of income. Note that wages and salaries and other labor income (i.e., benefits) together account for more than 60% of the total. Proprietors, farm and nonfarm, comprise 7% of total personal income. Interest, dividends and rents make up about 15%. Transfers, which include social security payments and federal retirement income (34%), Veteran benefits (4%), Medicare, Medicaid and other medical payments (40%) as well as unemployment (4%) and various income maintenance programs, including TANF cash assistance and Food Stamps (11%), account for 18% of total personal income.

As has been noted, New Mexico now ranks 47th among the states in per capita income. New Mexico per capita income in 2003 and 2004 was a little less than 80% of the US average, up from 75% in 2000. Average annual wages, which were once almost 95% of the US average, are today just above 80%. (See Figure 2.2.) The deterioration

Figure 2.1

**COMPOSITION OF NEW MEXICO PERSONAL INCOME
ESTIMATED 2004**

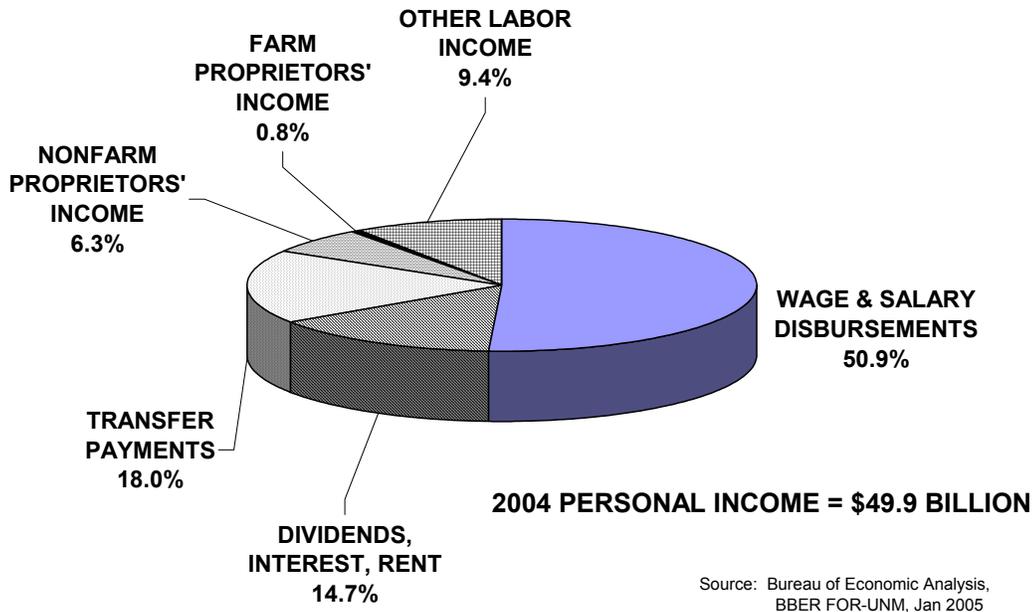
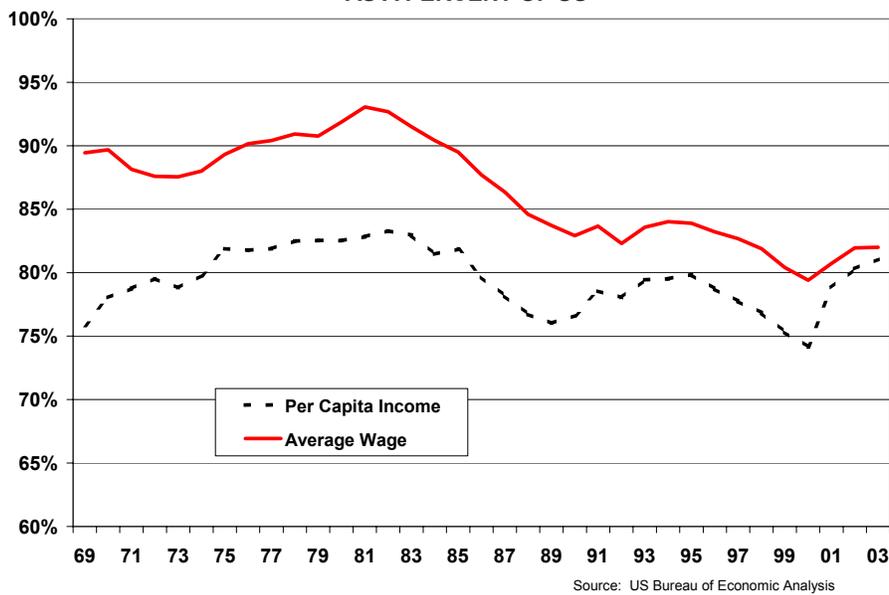


Figure 2.2¹²

**NEW MEXICO PER CAPITA INCOME AND AVERAGE WAGE
AS A PERCENT OF US**



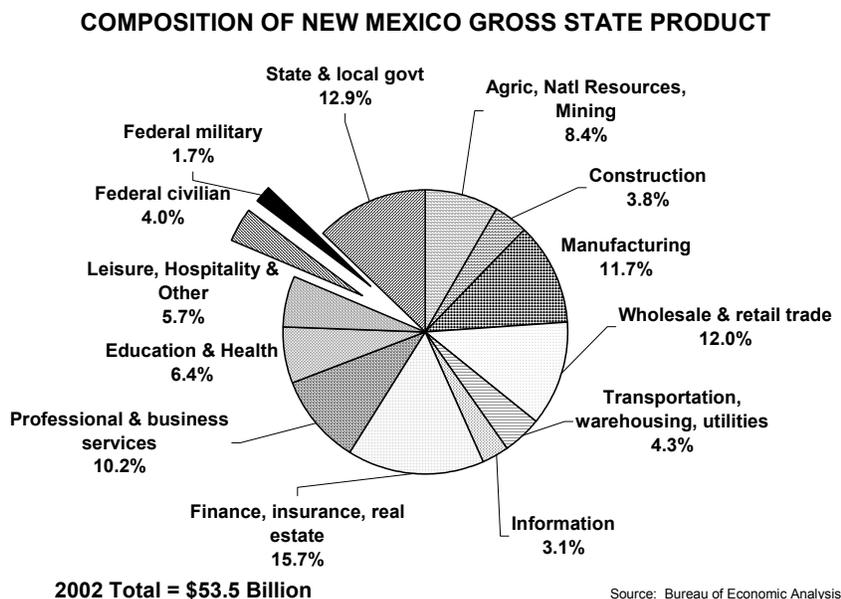
¹² The data used to prepare this chart were released prior to the March 28, 2005 BEA revisions. New Mexico total personal income had a significant downward revision concentrated in dividends, interest and rents. New Mexico per capita income was reduced accordingly, and is now less than 80% of the US.

is almost entirely in private wages. Federal civilian and military pay averaged 110% of the US in 1969 (civilian was at 97%, military at 121%), falling to 100% in 1978. The total has fluctuated up and then back down over the years since then and was about 103.5% in 2002, with civilian earnings at 95% and military at 117%.

Gross State Product

The latest figures indicate New Mexico Gross State Product (GSP) totaled \$57 billion in 2003. A sectoral breakdown for 2002 is provided in Figure 2.3 below. GSP is a measure of the total production in the state and is equal to the total value added in production. The total is net of the value of any goods and services used as inputs to production but produced elsewhere. By definition, value added equals total compensation to employees plus returns to capital (gross operating surplus in the current parlance) plus indirect business taxes (taxes on production and imports less subsidies). Note that federal government civilian and military activity only accounts for about 6% of the total value added. This total, however, only reflects federal government activity when the federal government is the employer and is directly providing services.

Figure 2.3



ECONOMIC IMPACT OF FEDERAL EXPENDITURES ON NEW MEXICO

This section presents a traditional economic impact analysis of federal expenditures on New Mexico. The methodology involves standard techniques used in regional economic analysis. The model used is the IMPLAN Pro 2 Model, as described in Appendix 2.A. It is important to note that this is a comparative static analysis. Basically, the analysis focuses on the total additional economic activity – jobs, income output -- supported

directly and indirectly by the flow of federal dollars into the state. The analysis is confined to federal expenditures in the state. Loan programs are not considered, even though such programs can improve access to capital markets, enable students to pursue a college degree, etc. No effort is made here to examine the dynamic effects of the federal presence on New Mexico (e.g., technologies transferred from the national laboratories, investments made in human capital) nor to look at the incentives or disincentives provided by the myriad of federal laws and regulations and embedded in the complexities of federal tax policy.

Table 2.2 summarizes the results of BBER’s analysis of the economic impacts of federal expenditures on the New Mexico economy. Following the analysis presented in the previous section, three types of impacts are analyzed: (1) wage and salary employment; (2) employee compensation; and (3) output. In each instance, the first round effects are presented and then the total effects.

Table 2.2
ECONOMIC IMPACTS OF FEDERAL GOVERNMENT EXPENDITURES IN NEW MEXICO, FY03

	Wage & Salary Employment		Total Compensation \$ Millions		Output \$ Millions	
	First Round	Total	First Round	Total	First Round	Total
Social Security & Retirement	27,007	46,753	625.2	1,185.9	3,354.1	4,849.0
Direct Payments for Individuals & Others	23,868	42,001	823.4	1,324.9	2,130.5	3,470.4
Grants	65,213	91,454	2,129.4	3,047.1	4,235.8	6,724.0
Procurement a	41,511	68,909	2,135.2	3,406.5	3,681.1	5,754.5
Wages and Salaries b	45,822	67,700	1,925.9	2,472.9	1,925.9	2,499.5
Federal Expenditure Impacts	203,421	316,817	7,639.1	11,437.2	15,327.5	23,297.5
Total Value Added c			7,639.1	11,437.2	8,894.8	13,646.7
	Wage & Salary Employment		Total Compensation \$ Millions		Gross State Product \$ Millions	
FY 03 New Mexico Totals	837,142	837,142	30,092.5	30,092.5	55,771.0	55,771.0
Federal as a % of New Mexico	24.3%	37.8%	25.4%	38.0%	15.9%	24.5%

a First round effects assume 63% of the procurement dollars are spent in New Mexico.

b Compensation for this category includes only wages and salaries. Benefits paid by the employer are a separate line item under direct payments for individuals and others.

c Since Gross State Product is a measure of value added in the state it is necessary to take only that output which is value added and to exclude the value of inputs to the production process that are purchased out-of-state.

Bureau of Business and Economic Research Estimates

To understand the total impacts, consider Medicare expenditures. The patient goes to see her doctor who is reimbursed for the visit by Medicare. The first round effects relate to the provision of services to the Medicare patient and result in a payment to the doctor’s office. The doctor’s office will use its income from patient revenues including Medicare to stock certain supplies (e.g., paper for examining tables) necessary to provide patient care. In purchasing these various supplies, the doctor’s office will provide revenue for other businesses to stock up with supplies and to meet payroll for their employees. The doctor and other employees in her office receive monthly paychecks at least in part paid out of Medicare payments received. These employees and those of the businesses from whom the office purchases goods and services will then go out and purchase various goods and services, thereby supporting additional employees in the economy. In this way, Medicare payments ripple through the

economy supporting additional employment and earnings and expanding the total output produced. The total impact of Medicare is the sum of the first round effects and the various secondary effects as this initial spending stimulates additional activity in the economy. The total effects reflect the operation of the multiplier: the total amount of economic activity – jobs, income, output – supported is greater than those supported directly by the federal expenditures.

The presentation of the results of the economic impact analysis uses the broad categories of federal spending discussed in Chapter 1. The analysis indicates that federal expenditures directly and indirectly support some 317 thousand jobs in the New Mexico economy -- 37.8% of total wage and salary employment in the four quarters that comprised FY 03. In terms of compensation, federal expenditures in FY 03 supported directly and indirectly \$11.4 billion, or 38% of total New Mexico wage and salary earnings and employee benefits. Output is trickier. Recall that gross state product is the total value added in the economy. To make a comparison with gross state product it is necessary to calculate the amount of output supported by federal spending in the New Mexico economy that is value added. For FY 03, BBER calculations using the IMPLAN model indicate that the total value added by federal spending was \$13.6 billion, or almost one quarter of gross state product in that fiscal year.

In addition to the impacts created by federal funds flowing into the state, there are partially offsetting negative impacts associated with funds flowing out of the state to the federal government. As noted in Chapter 1, an estimated \$8.7 billion in federal tax payments leave the state. While New Mexico is a net recipient of federal funds, it is important to acknowledge the outflow.¹³ Some of this outflow is accounted for in the estimated impacts of federal spending in this chapter in that these estimates are all net of the federal taxes paid at each round. The IMPLAN input/output model accounts for federal taxes paid and BBER has made additional adjustments for salaries, wages and direct payments.

ECONOMIC IMPACTS OF DIFFERENT TYPES OF FEDERAL PROGRAMS

Out of several thousand programs under the purview of the federal government, 671 are active in New Mexico. Despite this large number a few programs make up the bulk of the federal dollars. Procurement and Salaries & Wages are considered single programs and make up one third of the total money. BBER has segregated out several programs and categorized them into groups of particular interest: Military Bases, Research Laboratories, Research Universities, Health Care, Social Security and Retirement and Income Maintenance. These programs, shown in Table 2.3, make up 84% of all of the program money (not including loans and insurance).

¹³ The Tax Foundation estimates that NM receives almost \$2.00 in federal expenditures for every dollar in federal taxes. This calculation, however, includes money that may come to the state but only nominally as in the case of one-third of federal procurement.

Table 2.3
MAJOR FEDERAL PROGRAM AREAS

<i>FY03 \$M</i>	Federal Funds
Military Bases	2,316
National Research Labs	5,153
Sponsored Research at Universities	345
Health Care	3,014
Income Maintenance	1,151
Social Security & Federal Retirement	3,679
Total	15,657
Total Federal Funds	18,736
Share	84%

Source: Census Bureau, Consolidated Federal Funds Report, FY2003; BBER

UNM Bureau of Business and Economic Research, 2005

Methodology

The tables in this section of the chapter each have several components. The direct expenditures are directly from the Census Consolidated Federal Funds Report (CFFR) for FY2003, with the exception of the figures for research universities, which are based on annual financial reports for the individual schools or estimated from the CFFR. The direct and contractor employment numbers come from existing economic impact reports when available. This is the case for the labs and the military bases. The direct numbers for the research universities assume that total faculty and other employee headcounts are proportionate to the share of federal funds in total revenues for each university. IMPLAN was used to estimate the first round effects for the health care, retirement and income maintenance programs.¹⁴

Military Bases

New Mexico has four military bases, which are significant economic drivers particularly for their immediate communities. Two of them are in southeastern New Mexico—Holloman and White Sands Missile Range; Cannon is in Clovis on the east side of the state; and Kirtland Air Force Base is in Albuquerque. Table 2.4 shows the impact of the military bases.

¹⁴ These have been calculated by assigning IMPLAN industrial sector codes to procurement and grant expenditures and personal consumption expenditure patterns to direct payments to individuals. For example, the Medicaid grants to the states were assigned sector codes and shares based on the Center for Medicare and Medicaid Services breakdown of dollars spent while social security payments to individuals was assigned a spending pattern appropriate for retiree consumption.

Table 2.4
ECONOMIC IMPACT OF NEW MEXICO MILITARY BASES, FY 03

Military Bases	Federal Expend (\$Millions)	Direct Employment	Contract Employment	Total Employment	Direct Compensation (\$Millions)	Total Compensation (\$Millions)
Cannon Air Force Base	166.3	3,898	497	5,905	130.6	180.4
Holloman Air Force Base	281.8	5,351	1,017	8,855	244.2	317.6
Kirtland Air Force Base *	1,322.1	8,508	10,206	31,177	497.4	1,151.9
White Sands Missile Range	545.6	3,061	3,150	11,945	179.3	461.8
Total	2,315.8	20,818	14,870	57,881	1,051.4	2,111.7

* Sandia National Laboratories and Phillips Research Site have been removed from Kirtland AFB and are included under research laboratories.

Source: NMSU report on Military Bases, Kirtland AFB, BBER calculations using Implan
UNM Bureau of Business and Economic Research, 2005

These bases directly employ over 35,000 employees including military and civilian employees and contractor employees working on-site. The impact of military bases is treated differently from other economic entities. There are two parts to the impact: the impact of the spending on goods and services to support the base's operation and the spending of the people stationed there. Many of the military personnel live on base and shop on base where the costs of goods are subsidized (generally offered at cost rather than a typical retail markup). These are considered leakages since they do not directly impact the community. The civilian personnel and the contractors, however, do not have these attributes and are treated as normal households. Overall, the military bases support 54,110 jobs and \$1.8 billion in income.

Research Laboratories

Of these groups, the largest share is for the national research laboratories—Los Alamos National Laboratory (LANL), Sandia National Laboratories (Sandia NL), and the Phillips Research Site (PRS), which includes the Air Force Research Laboratory and is located at Kirtland AFB. Sandia NL and LANL are Department of Energy (DOE) facilities, and Lockheed Martin and the University of California have procurement contracts with DOE to operate their respective facilities. Both labs receive relatively small amounts of funding from other sources but the impacts of other federal revenues are not included in this analysis. Table 2.5 shows the impacts.

Table 2.5
ECONOMIC IMPACT OF NATIONAL RESEARCH LABORATORIES ON NEW MEXICO, FY 03

	Federal Expend (\$Millions) a	Spending in NM (\$Millions) b	Direct Employment c	Total Employment	Direct Compensation (\$Millions)	Total Compensation (\$Millions)
Sandia National Laboratory	2,114.7	1,161.6	7,408	20,812	761.9	1,211.6
Los Alamos National Laboratory	2,004.6	1,453.1	8,300	25,068	722.2	1,201.2
Air Force Research Laboratory c	1,033.4	284.7	1,166	4,451	92.1	218.2
Total	5,152.8	2,899.4	16,874	50,331	1,576.2	2,630.9

a Sandia NL and LANL include only DOE monies.

b Estimated by BBER based on other studies.

c Direct employees only, although Sandia NL has 2,160 and LANL some 3,000 in contractor employees.

c AFRL has a relatively small staff and a large number of contracts with private companies that employ many people.

Source: Sandia National Laboratories, Los Alamos National Laboratories, AFRL; BBER calculations using Implan

UNM Bureau of Business and Economic Research, 2005

Note that only dollars spent in New Mexico are included in the analysis. Direct employment at Sandia NL and LANL are 7,400 and 8,300 respectively, while contractors add another five thousand jobs. Overall, the \$5.2 billion the federal government spends on the research laboratories, \$2.9 billion of which stays in New Mexico, support over 50,000 jobs and \$2.6 billion in earnings in New Mexico. The contactors and high-tech suppliers are some of the highest paying companies in New Mexico.

In addition to these direct impacts, it is important to note that all of the labs have technology transfer programs. These programs provide additional economic impacts that are not shown here as the central principle behind technology transfer is to spin-out promising ideas into companies that serve a broad market. A recent study by BBER on the Science and Technology Corporation at the University of New Mexico analyzed the markets of spin-off companies to demonstrate the impact of these select companies and the program itself. The conclusion drawn from that report is that, while the impacts may be unknown or small due to the infancy of the companies, the spin-offs were in important high-wage sectors that held promise for the development of New Mexico's economy.

Research Universities

There are three research universities in New Mexico that receive significant federal funds (excluding scholarship and federal student loans): University of New Mexico in Albuquerque, New Mexico State University in Las Cruces and New Mexico Institute of Mining and Technology in Socorro. The dollars received from the federal government largely go to support research programs in technology, agriculture, and basic sciences and research. Estimated impacts are shown in Table 2.6 below. Direct impacts were determined by applying the ratio of federal funds to total revenues to the headcount of faculty and other employees at each university, including students.¹⁵ The \$344.7 million invested in research at the universities supports almost 12,000 jobs and almost \$400 million in income in New Mexico.

Table 2.6
ECONOMIC IMPACT OF UNIVERSITY FEDERAL SPONSORED RESEARCH, FY 03

Research Universities	Federal Expend (\$Millions)	First Round Employment	Total Employment	First Round Compensation (\$Millions)	Total Compensation (\$Millions)
New Mexico State University	126.3	1,210	4,231	70.7	137.7
University of New Mexico	177.3	2,591	5,938	104.9	193.3
New Mexico Mining and Tech	41.2	466	1,379	22.5	44.9
Total	344.7	4,267	11,548	198.0	375.8

Source: UNM, NMSU, BBER calculations for NMMT; BBER calculations using Implan
UNM Bureau of Business and Economic Research, 2005

¹⁵ UNM Research excludes federal money for UNM Hospitals. Only the main campus is included in the analysis.

In addition to these direct impacts, it is important to note that research universities are crucial in the transfer of technology out of basic research and science and into the commercial market place. Like the labs, these institutions have technology transfer programs that provide additional economic impacts that are not shown here

Health Care

With over \$3 billion in expenditures, the federal government is essential to the provision of health care services in New Mexico.¹⁶ In addition to Medicare and Medicaid spending, there are also programs that support public clinics, training of health service professionals and support for Indian health services.

The Medicaid Program (or Medical Assistance Payments), categorized under Grants, is by far the largest of the health care programs. The program is administered by the State which must put up the State's share, now 29% of the total for most of the care provided to eligible low income citizens. The most recent figures on Medicaid spending were for 1999 and indicated that 29% of the Medicaid dollar in New Mexico went for nursing home care, which care is strictly limited under Medicare, with another 17% going for home health care. The latter category of spending has increased dramatically since the State opened up the personal care option (2000), which allows people to be taken care of in their homes. Family members often qualify as caregivers and are compensated by Medicaid. BBER estimates that the federal dollars for Medicaid supports almost 25,000 individual health care workers in New Mexico.

Medicare makes up most of the remainder of the Health Care category. These are payments that are made directly to the health care providers for the health needs of elderly New Mexicans. The employment supported directly by these reimbursements is approximately 10,000 full or part-time employees. Together with Medicaid and the other health care programs listed in Table 2.7, the federal government directly supports 35,268 health service jobs, or roughly one in three in New Mexico. Total employment supported in New Mexico is just under 60,000, and this does not count employees supported directly or indirectly as a result of the care provided under the Indian Health Service nor under the Veterans Administration.

¹⁶ The quantitative analysis which follows does not include the Veterans Administration Hospital and clinics nor the Indian Health Service facilities and payments for services.

Table 2.7
ECONOMIC IMPACTS OF FEDERAL SPENDING ON PATIENT CARE, FY 03

(FY 03)	Total Expenditure (\$Millions)	Direct Employment	Total Employment	Direct Compensation (\$Millions)	Total Compensation (\$Millions)
Medicare	1,190.5	9,449	19,219	362.3	617.3
Fed Share Emp Life/Health Insurance Premium Payments	113.8	446	728	10.9	18.6
Community Health Centers	28.5	112	182	2.7	4.7
Medical Assistance Program (Medicaid)	1,605.6	24,940	39,099	706.5	1,066.0
State Children's Insurance Program (SCHIP)	61.0	239	390	5.9	10.0
Maternal And Child Health Services Block Grant	6.0	24	38	0.6	1.0
Block Grants For Prevention And Treatment Of Substance Abuse	8.9	35	57	0.9	1.5
Total	3,014.4	35,244	59,714	1,089.7	1,719.0

Source: US Census Bureau, Consolidated Federal Funds Report, FY 03; CMS, Office of the Actuary, for Medicare and Medicaid calculations

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Income Maintenance -- Social Security and Federal Retirement

Social security and federal retirement and disability payments are a reliable, large and growing injection into the spending streams of New Mexico communities. The payments to federal employees who have chosen to retire in the state are significant in dollar amount. The retirees receiving payments come from virtually every agency and are distributed in communities throughout the state. Since these are direct payments to individuals, the impacts on the economy can only be simulated if assumptions are made about how the dollars will be spent. Fortunately, the IMPLAN model includes a module that can be used in assigning spending patterns to different income groups. Table 2.8 shows the results of this analysis. Note that Social Security payments support directly and indirectly some 35,000 jobs across the state, while federal civilian and military retirement and disability payments support some 12,000 positions.

Table 2.8
ECONOMIC IMPACT OF SOCIAL SECURITY AND FEDERAL RETIREMENT, FY 03

	Federal Expend (\$Millions)	Direct Employment	Total Employment	First Round Compensation (\$Millions)	Total Compensation (\$Millions)
Social Security	2,761.4	20,270	35,090	469.2	890.1
Federal Retirement	917.8	6,737	11,663	156.0	295.8
Total	3,679.2	27,007	46,753	625.2	1,185.9

Source: Census Bureau, Consolidated Federal Funds, FY 03, BBER calculations using IMPLAN

UNM Bureau of Business and Economic Research, 2005

Income Maintenance -- Low Income Residents

There are many programs that the federal government operates that assist the most economically vulnerable people in New Mexico. The programs considered here break into four groups: Low Income Housing, Food Programs, Children's Programs and Child

Care Programs, and Cash Subsidies. Some of these involve direct payments to individuals and others are funneled through social assistance agencies and governments at all levels. The first column of Table 2.9 shows the distribution of the \$1.2 billion in this group. Health care programs that serve the poor, like Medicaid, are not included as these programs are separately analyzed under health care. Other programs not included here are agricultural subsidies and housing loans.

Table 2.9
ECONOMIC IMPACT OF CASH AND NON-CASH ASSISTANCE
TO LOW INCOME NEW MEXICANS, FY 03

<i>(FY 03)</i>	Federal Expend (\$Millions)	First Round Employment	Total Employment	First Round Compensation (\$Millions)	Total Compensation (\$Millions)
Low Income Housing Programs	114.8	810	1,504	10.0	29.6
Food Programs	251.8	3,722	6,013	82.6	145.4
Childrens Programs	156.5	3,619	5,020	126.3	162.0
Child Care Programs	39.7	355	539	7.7	12.5
Cash Subsidies	588.4	3,435	5,962	79.8	148.6
TANF Cash Assistance	122.5	715	1,241	16.6	30.9
Unemployment Insurance	152.9	893	1,550	20.7	38.6
Excess Earned Income Tax Credit	312.9	1,827	3,171	42.4	79.0
Total	1,151.1	11,940	19,038	306.4	498.0

Source: Census Bureau, Consolidated Federal Funds, FY 03, BBER calculations using IMPLAN
 UNM Bureau of Business and Economic Research, 2005

The largest programs are for “Cash Subsidies” and include the grant to the State for the Temporary Assistance for Needy Families (TANF), unemployment compensation and the refundable portion of the Federal Earned Income Tax Credit. The last two are paid directly to individuals while the TANF grant is paid to the State but then distributed to individuals by the State.

Referencing Table 2.9, note that these programs support an estimated 19,000 jobs and \$498 million in income. Most of the jobs are in the retail and service industries, reflecting the fact that these are essentially subsistence payments to alleviate poverty and are spent immediately in the community to purchase groceries and essential services.

So where does the State get the biggest bang per dollar of federal spending? Table 2.10 provides the results by program group for certain summary measures of economic impact. All are based on the traditional comparative static analysis sketched out above. The first looks at the number of jobs supported per million dollars of federal expenditure in the state.¹⁷ The second looks at the total gain in employee compensation per dollar of expenditure. The final two columns present figures on the average compensation per employee in the first round of spending and for all those employees supported by the federal spending.

¹⁷ Note with respect to the national research laboratories that only those federal dollars actually spent in the state are included.

Table 2.10
SUMMARY OF IMPACT MEASURES

	Jobs per \$1 Million	Compensation per \$1	Average Compensation	
			First Round	Total
Military Bases	24.99	0.91	50,504	36,483
National Research Labs	17.36	0.91	93,410	52,272
Research Universities	33.47	1.09	46,403	32,542
Health Care	19.81	0.57	30,919	28,787
Income Maintenance	16.54	0.43	25,662	26,158
Retirement	12.71	0.32	23,150	25,365
Average	18.30	0.64	41,730	34,743

UNM Bureau of Business and Economic Research, 2005

Note that research universities have by far the largest number of jobs created per million dollars of federal contracts and grants and that the universities also rank highest in total compensation per dollar of federal expenditures. Military bases are second in the jobs supported per million of expenditures and tied with the national research laboratories for second in total compensation per dollar of expenditure. Health care ranks third in jobs per million of expenditures, followed by the national research laboratories. The national research laboratories pay very high salaries and benefits and the average compensation of the employees supported is over fifty thousand dollars, or about twice the total averages for the income maintenance programs for low income residents and for those retirees receiving social security and/or federal retirement income. The lower ranking for the national research labs on jobs and compensation per dollar reflect a high level of leakages to sub-contractors and suppliers doing business outside the state.

It is important to recall again, that the results reported in Table 2.10 are for a comparative static analysis that takes the existing complement of industries and the existing technologies used in production as given. The results are important for thinking strategically about the future of the federal government in the economy of the state. Also important, however, are the dynamic impacts on the economy of investments in human capital, in infrastructure, and in research and development. We know that the quantitative expansion of certain types of economic activity can open up opportunities for other businesses and for investing in new technologies. The theoretical underpinnings of business cluster analysis give focus to the importance of critical mass in encouraging particular types of businesses to invest and to expand in a particular geographic area -- where there is a workforce with the appropriate skills and training, where a chain of suppliers already exist, where new ideas and new technologies are developed under conditions conducive to cross-pollination. Industrial clusters make sense because of these various agglomeration effects and because of synergies. In thinking strategically about the federal government's potential roles in the economy, it is crucial to think about the important synergies that can be created among different programs and activities.

Chapter 3

THE FEDERAL BUDGET PROCESS

T.M.Palmieri*

This chapter discusses the steps by which the Federal Government provides funding for its programs. Given the complexity of the topic, the narrative makes two assumptions. It assumes that the reader may not be familiar with the technical jargon, so-called budget concepts. Further, it assumes that the reader would appreciate an overview; that there is a level of detail below which the reader would find the technical minutia of the budget process to be not very interesting.

PROCESS AT A GLANCE

~April	Outlines of the Administration budget for the coming year are in place.
April - Sept	Agencies prepare budget requests.
Sept	Agencies submit budgets to the Office of Management and Budget (OMB).
Sept-Nov	OMB analysis of agency submissions
Nov-Dec	Negotiations – Agencies and OMB.
Dec-Jan	Final decisions by Administration.
Feb	President submits Budget to Congress.
Feb – July	Congressional Hearings /Committee Markups.
June - July	Appropriations committees report bills.
Aug - Sept	Appropriations bills passed by Congress.
Oct 1- Sep 30	The new fiscal year (FY). Agencies spend the amounts appropriated.

As shown above, the process takes 18 months, from April until October of the next year, before agencies start spending. Because the process takes so long, there are actually three budgets in play at the same time. As of April 2005:

- The FY '05 budget is being executed. Money is being spent from Oct 2004, through September 2005. While spending the money, agencies may also be

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dealing with Congress on suggested fine-tuning (reprogrammings) or requesting more money (supplemental appropriations).

- The FY'06 budget is making its way through the Congressional process.
- The FY'07 budget is just getting under way. The Administration is deciding on the basics of the FY'07 budget, and OMB may issue initial budget targets to the agencies.

PROCESS WITHIN THE ADMINISTRATION

The Process within the Executive branch begins with the development of the Administration's fiscal policy. The Director of the Office of Management and Budget takes the lead, working closely with both Treasury and the Council of Economic Advisors (CEA). The Department of the Treasury focuses on tax revenues, while CEA advises the President on macroeconomic issues, such as the effect that a Federal budget deficit will have on the economy. This team of advisors develops fiscal estimates, i.e. projected levels of inflation, unemployment, and expected economic growth, and these projections will be the basis for formulating the Administration's budget. Based on these predictions, OMB advises the President on options for achieving the President's overall fiscal goals and on the allocation of funds among specific programs and activities. (As an example of a fiscal goal, the current Administration has set a goal of cutting the deficit in half by 2009).

Around April or May, OMB generally provides agencies with guidance on how each agency should address major policy and management issues as it develops its budget request. In addition, OMB provides specific guidance to each agency on the funding levels to be used to develop its budget submission for the coming year. The funding levels are often based on the economic models and assumptions used to develop the previous budget, but may be adjusted to reflect any significant changes in the economy or laws enacted since the previous budget was developed.

Between April and September, the Federal agencies assemble their budget requests, guided by the funding targets provided by OMB. The process varies by agency, but for many agencies this process is bottom-up. Within each agency individual program managers request amounts they believe to be appropriate to spend in the next year. Agency heads consider proposals for new programs to advance the mission of the particular agency. Finally, the Administration might propose new programs within the agencies, initiatives that will demonstrate and advance the most important goals of the Administration.

Ultimately the budget target for an agency leads to competition among programs and requires the agency head to establish priorities. Presidential initiatives take first priority. If the budget target is larger than that needed to cover inflation, agencies will typically request increased funding for programs that have been successful. If the

budget target is tight, agencies typically place the highest priority on protecting their existing programs. The current Administration has attempted to influence this process of priority setting by requiring agencies to focus on program performance. Each year agencies are required to demonstrate that their programs are achieving useful and intended results.

In September, the heads of the agencies submit their budget requests to OMB for consideration by the Administration. All agencies are expected to submit a budget option that meets the level of funding provided in the guidance from OMB, but agencies typically also request an amount that exceeds the budget target. Between September and mid-November, staff from the agencies carries on discussions with the staff at OMB. Based on these discussions, the OMB staff develops its recommendations concerning the levels of funding for particular programs in each agency. Typically the OMB staff members are experts in particular program areas, and are recognized as such by the agencies.

During this same period, the Director of OMB gets guidance from the President on the overall fiscal policy to be used in making funding decisions. This guidance often centers on the Federal deficit, the shortfall between revenue and expenditures. Here the tradeoffs are between borrowing to fund the full amount of the projected deficit, or raising taxes to reduce the deficit. Neither alternative is palatable. Borrowing means paying interest. The interest payments then become part of the required expenditures in future years, and squeeze the amount available for real programs. Raising taxes enables the Government to deal with current fiscal problems in the current year, but additional taxes can affect the overall performance of the economy which in turn affects government revenues and spending.

During late October and early November, the OMB staff meets with the Director of OMB. The Director has an opportunity to review each agency's budget request and to hear recommendations provided by the staff. These "Director's Review" sessions frequently include senior staff from other White House offices (e.g., National Economic Council, Council on Environmental Quality) who may be asked to provide their recommendation on a program. The decision makers look to the OMB staff for advice on whether the proposed programs are consistent with the Administration's agenda, whether the requested levels of funding are adequate or more than adequate, and whether the over-target requests might justify an increase in the target that has been issued to a particular agency.

The outcome of this process is an approved overall budget for an agency and, in most cases, specific details on how these funds should be allocated among programs. Usually in late-November the OMB staff informs agencies of the Director's decisions in a document referred to as the budget "passback." The passback covers the entire budget request for each agency and transmits the Director's decisions concerning the agency's funding request, as well as providing management guidance on major issues

of concern to the Administration, e.g. implementation of a consistent Information Technology policy.

Typically the amount of funding in the passback is less than the amount requested by the agency and further discussion is necessary. Between mid November and the end of December, the agencies and OMB negotiate areas of disagreement. The easy controversies are settled at lower levels (often by career staff); the more difficult ones are settled by the agency head and the Director; the really difficult ones get settled by the President. In practice, very few agencies take their appeals all the way to the President.

By late December, nearly all the decisions have been made and OMB and the agencies set about preparing the budget documents that will explain the President's Budget to Congress and the public. The first week in February, the President submits his budget request to the Congress.

At this point, it is worth noting that the President's budget request is much more than just the amounts needed to keep the Government running. In fact, notably since the Reagan Administration, the budget request has become the starting point for a planned negotiation with Congress. The President takes on hard problems, proposes bold initiatives, and inevitably meets resistance from certain quarters in Congress. Administration officials will remain active at every step in the Congressional budget process, working closely with members to garner their support for the President's agenda. And while the President needs Congress to pass the bills that provide funding to support his agenda, Congress ultimately needs the President to be willing to sign those bills.

PROCESS WITHIN THE CONGRESS

In February, Congress starts its own process for dealing with the President's Budget Request.

Note that the Congress starts with the budget proposed by the President. Given the limited staff available to Congress, it is impossible for Congress to start from scratch. As a result, in any given year Congress does in fact fund most of the programs proposed by the President.

The process in Congress results in the passage of two types of acts (laws). Annual appropriations acts identify the specific amount of new spending authority that each project, program, or activity will have for the coming year. The new spending authority is usually available to be spent over several years, although some appropriations lapse if the money is not spent (or obligated) in the year provided. These annual appropriations form the discretionary part of the budget. At the present time, discretionary spending comprises about 40% of the total. Discretionary spending

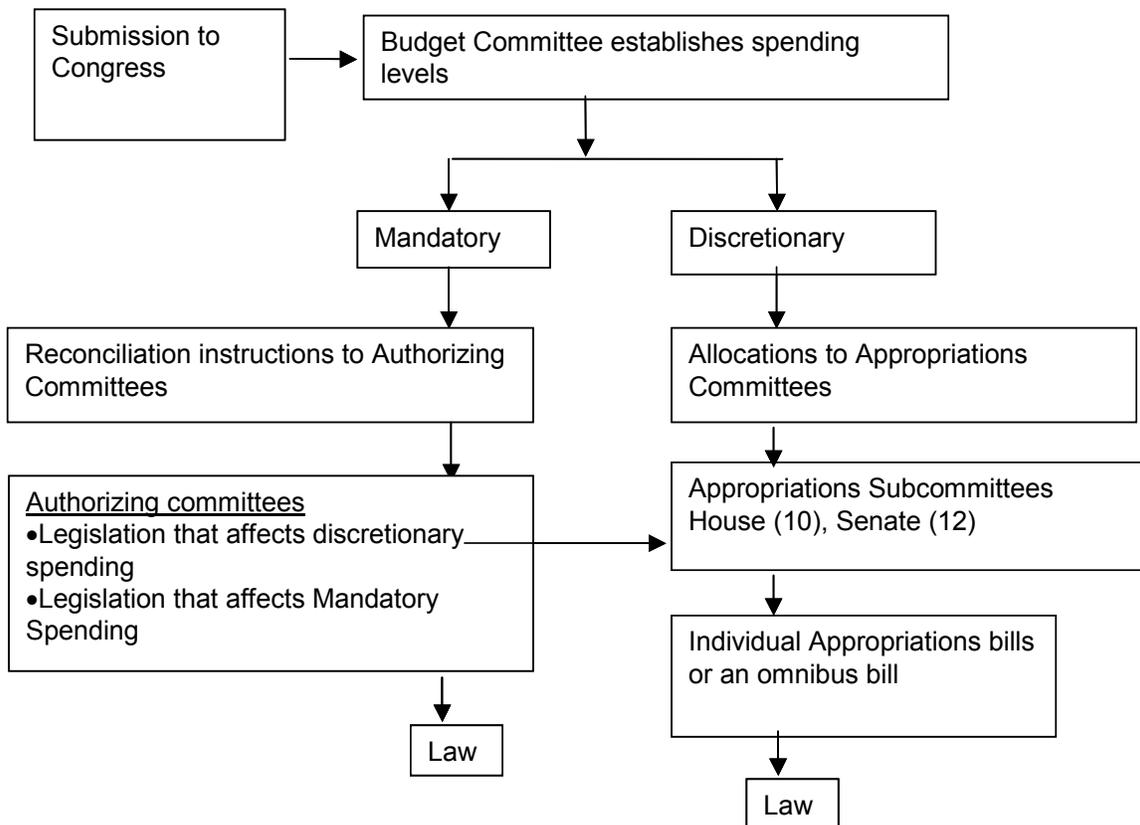
includes the budgets for the civilian agencies such as the Department of Energy and its labs, the Bureau of Reclamation, NASA, etc. It also includes Defense discretionary spending, which covers the Department of Defense, the Services, the Army Corps of Engineers, Military bases, and other DOD spending.

The second type of spending authority is provided in authorization acts. An authorization act can create mandatory spending, which is an obligation for the Federal government to provide funds to individuals or groups under specific circumstances. Examples of such mandatory spending are social security payments, unemployment compensation, agricultural price supports and so-called formula grants. At the present time, mandatory spending comprises about 60% of the total. In addition, an authorization act may deal with levels of spending within a particular agency. In such cases, the effect of the act is to impose procedural constraints on the appropriations committees.

The Congressional budget process is shown in the chart below. The process is the same in both the House and the Senate.

Figure 3.2

CONGRESSIONAL BUDGET PROCESS



The budget first goes to the budget committee in each house. Under the Budget Act, the Congressional Budget Office (CBO) does its own analysis of the budget and reports back to the budget committees with its estimate of revenues and its own estimate of the cost of proposals being requested by the President. Taking the CBO estimates into account, the budget committees then establish the spending and revenue levels that will guide the rest of the process in the Congress.

In each house, the budget committee issues instructions to both the authorizing committees and the appropriations committee. On the mandatory side, the so-called reconciliation instructions provide a framework for legislation to be passed by the authorizing committees. Essentially they cannot pass legislation that would increase spending beyond the levels dictated by the budget committee. On the discretionary side, the budget committee in each house allocates a spending limit to the appropriations committee, and the appropriations committee then divides that allocation among its subcommittees¹⁸.

At this point every relevant committee has a budget target. And among the subcommittees, they cover the spending for every discretionary program in the Government. Attachment 1 shows the committees in each house.

The structure of the appropriations subcommittees has changed this year, making it somewhat complicated to describe their jurisdictions. Attachment 2 shows the jurisdictions of the 13 subcommittees prior to the 109th Congress. Attachment 3 shows the recent changes. There are now 10 subcommittees in the House and 12 in the Senate, and the jurisdictions of the House subcommittees are no longer identical to those in the Senate. This difference will inevitably cause problems in passing the FY'06 budget.

Between February and July, the authorization committees pass legislation that affects Government spending. They can create new programs, set spending limits on existing programs, dictate spending levels, or change formulas used in calculating the amounts that must be paid to qualifying individuals.

Between February and July, the appropriations subcommittees first hold hearings. Administration officials appear, explain and defend their budget requests. After the hearings, the subcommittees craft the bills. They are constrained by their spending ceilings, and possibly by new authorizing legislation that may limit the amount that they can appropriate for a given program.

At this point the chair of the relevant appropriations subcommittee comes to the fore as the person that has the greatest ability to influence the outcome of the legislation. The chairs of the subcommittees have the ability to call the subcommittees to order. They

¹⁸ These are referred to as the 302(a) and 302(b) allocations, where the numbers refer to the section of the Budget Act that required the Budget committee to issue the allocations.

then have the ability to call for the amendments to be debated and to call for votes on the amendments. The current chairs of the subcommittees are shown in Attachment 4.

Note that the amendments offer the opportunity to insert new programs into the budget, programs that were not proposed by the Administration. Such programs are typically referred to as earmarks. If the target for the subcommittee is a significant constraint, then such earmarks can only be funded by reducing the funding for programs proposed by the President. Thus, earmarks often become source of friction between the President and the Congress.

In the House, each subcommittee starts with the Administration's request, creates a draft House bill within its 302(b) allocation, and amends the bill so that it represents the wishes of the subcommittee. Each subcommittee then reports a bill, i.e. sends a bill along with a written report, to the full appropriations committee. The full appropriations committee then has an opportunity to amend the bill before reporting it to the House. The House debates the bill and has yet another opportunity to amend the bill, subject to House's rules for amending a bill. The House then passes the bill. At this point, for an individual program, the spending level requested by the President may have been modified significantly, or may have survived in tact.

The Senate typically starts with the bill as passed by the House, repeats the process described above, and passes a Senate bill.

Differences between the two bills are worked out in a conference committee, which is typically made up of members from the relevant subcommittees in each house. The conference committee then also issues a report and reports out a single bill, which is referred to both the House and Senate. The two houses then vote once again, this time on the same bill.

If passed by both houses, the bill goes to the President for his signature, and becomes law.

Each program in the government has a separate account in the Treasury. Amounts appropriated are added to the amount available for that particular program and each program spends only from the amounts available in the account for that specific program.

In theory, all this happens before October 1, the first day of the new fiscal year. On that day the agencies can start spending the funds that have been appropriated.

Special circumstances

Note that the process does not always work as described above. In some years, the members of Congress may find that they cannot reach agreement on one or more issues, and they can choose to keep a bill from a final vote. In other years, the Congress may see fit to wait until individual bills have been passed by each house, and

then combine several of them into an omnibus appropriations bill. Such a bill is extremely hard for the President to veto because a veto would shut down a large part of the Government.

If a particular appropriations bill is not passed by October 1, the agencies covered by that bill will not have any new money to spend. If all the bills have been bundled into an omnibus appropriations bill, and still not passed, then the entire Government can run out of money. In the recent past, this crisis has indeed occurred.

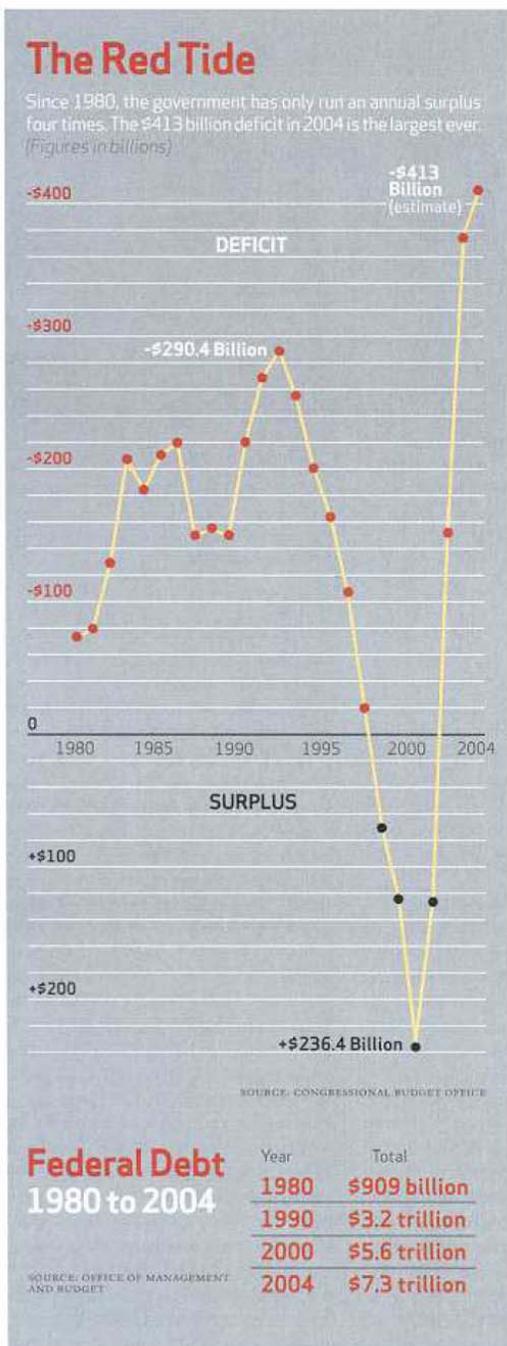
To keep the Government running, the Congress passes a Continuing Resolution (CR), often reported in the press as a stopgap spending bill. In some cases the CR will limit spending to the monthly rate from the previous year. If both houses have passed

versions of a particular appropriations bill, the CR might limit spending for each program to the lower amount, in either the House or Senate Bill. In any case, a CR is passed for a limited period and the leadership keeps pressure on the members to return again and again until they finally pass a bill that provides for a full year of appropriated funds.

After October 1, it is still possible to modify the amounts appropriated. Often an act specifies an amount for particular program, while report language specifies further details. If an agency wishes to change the details, i.e. shift funds within an amount specified in the act, it sends a reprogramming request to the relevant committees. If an agency wishes to change the amounts that actually appear in the act, it requests a supplemental appropriation, which means a separate bill. OMB keeps close tabs on requests that are made while the budget is being executed, and controls the number of such requests.

Final Comments

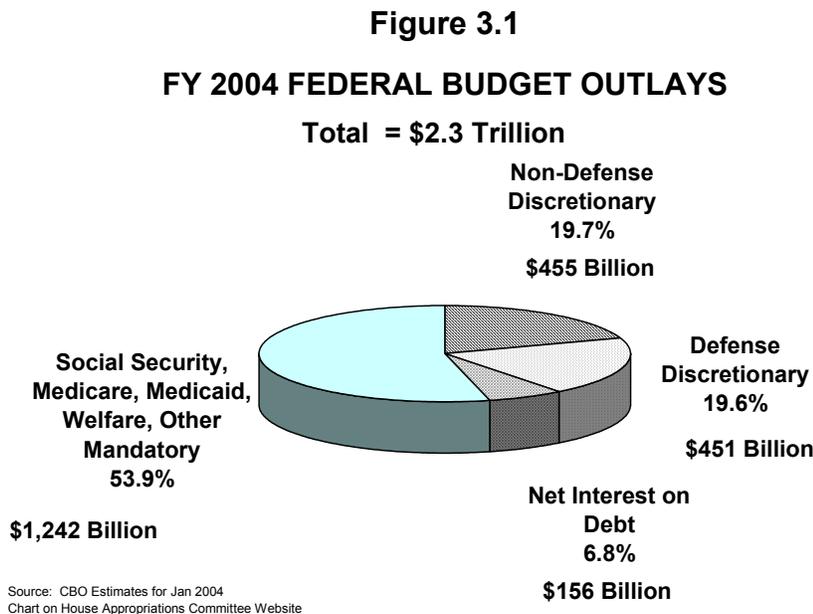
This paper has not covered many important details of the budget process. For example, emergency supplemental requests are handled outside the spending limits that Congress imposes on itself. In addition, there is a process for ensuring that reconciliation instructions are carried out by the authorizing committees. A look at attachment 3 indicates that it can take full time to keep up with the details.



A few numbers

As shown at left, through FY'04 the Government has been running deficits for 20 of the last 24 years. This chart¹⁹ also shows that the Federal Debt in 2004 was \$7.3 trillion. For FY'06, the budget currently on the Hill, the President requested spending of \$2.5 Trillion, so the debt is about three times the amount of annual spending.

The data in the pie chart below show that mandatory spending, if one includes interest on the debt, was 61% of the budget in FY'04. Interest on the debt accounted for 6.8% of expenditures. The chart implies that the rest of the budget is about evenly divided between Defense and non-Defense. But "non-Defense" also includes Homeland Security, Veterans Affairs and International Affairs – more details.



¹⁹ Chart from Government Executive magazine, February 2005. p 36.

Chapter 4

STRATEGIES FOR FUTURE MANAGEMENT OF THE FEDERAL INVESTMENT TO CREATE A VIBRANT SUSTAINABLE ECONOMY

Chapters 1 and 2 have documented the importance of the federal government in New Mexico's economy. What can New Mexico do to realize the full economic potential of the federal assets in the state? How can New Mexico better position itself to ensure the future flow of federal funds and how can these funds be harnessed to stimulate the economy, to increase per capita income, to eliminate poverty and to ensure the full participation of all our citizens in the economy? How should New Mexico position itself toward the federal government? What should be New Mexico's strategy toward achieving the broad objective of creating a vibrant sustainable economy?

The federal presence in the state and the federal program dollars that flow into the State and into New Mexico communities can be thought of as contributing or as having the potential to contribute to the overall vitality of the New Mexico economy by helping to create:

Viable Communities: The federal presence and the flow of federal funds help to sustain and develop our communities and regions as places in which to live, to work, to do business and to invest. The federal government is a major employer in some New Mexico communities and federal payments of social security and retirement and cash and non-cash assistance to those in need are important injections into local economies throughout the state. But the federal government helps in other ways, enabling communities to build needed infrastructure, schools, and housing, and by providing additional funding for public safety, health care, environmental protection and a variety of other public purposes.

Viable Businesses, Viable Economies: Federal activities in the state and federal funding play important roles in developing and supporting New Mexico businesses. The federal government's roles in this area include providing access to capital, underwriting the development and commercialization of new technologies, and creating and sustaining markets for certain products.

Viable Workforce: The federal government can and does play important roles in funding programs that nurture and educate our young, preparing them to enter the primary grades; in educating, training and retraining our current and future workforce, and in trying to ensure that all our citizens are able to realize their potential and live productive lives.

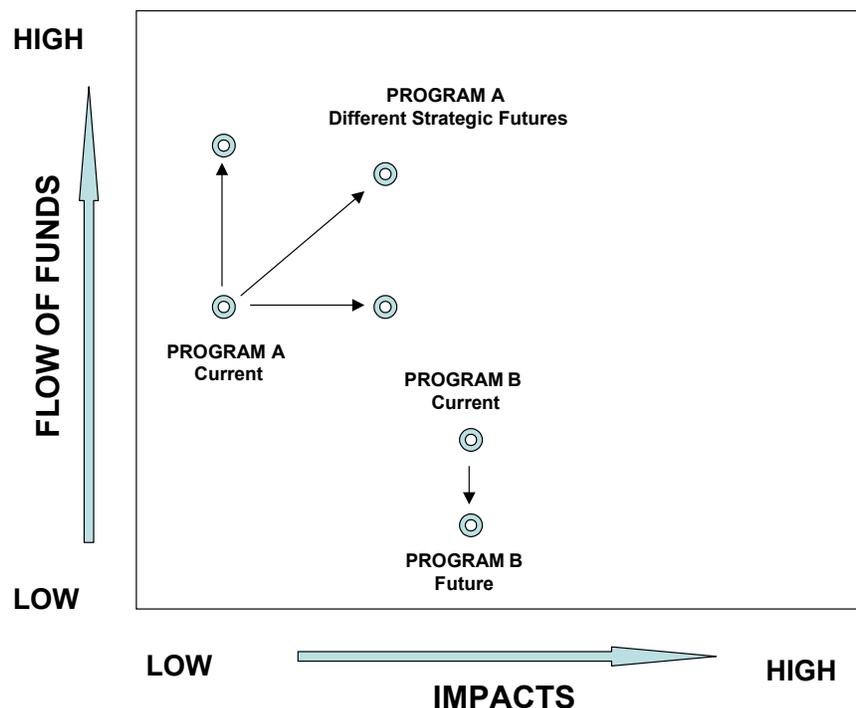
The panels in this New Mexico First Town Hall will give focus to how New Mexico can more effectively partner with the federal government in each of these areas to achieve

agreed upon objectives. This chapter will provide background information on federal agencies and programs to facilitate deliberations about future strategies in each of these areas.

THINKING STRATEGICALLY ABOUT THE FEDERAL PRESENCE

Figure 4.1 boils down the problem of trying to maximize the impact of federal spending on the New Mexico economy into two dimensions. The flow of federal funding for a particular program or programmatic area is plotted on the vertical axis; the impacts of federal expenditure on this program/program area are plotted on the horizontal axis. Actions by the state conceivably can effect where a program will be on either or both dimensions. Much will depend, however, on the direction of federal policy. Thus while the state might be able, over time, to increase the flow of federal funding for program A and/or to leverage better this funding so as to increase the impacts on the economy, it may be quite unable to reverse the political tide resulting in actual funding cuts for program B. Thinking strategically about how the state can maximize the impact of the federal presence requires consideration both of factors affecting the flow of federal funding in a particular area and of the channels whereby this flow of funds can impact the economy.

Figure 4.1
ACHIEVING MAXIMUM IMPACT



Flow of Funding

As pointed out in Chapter 3 by Dr. Palmieri, the amount of funding for different federal programs reflects the overall budget situation – e.g., the amount and forecasted

trajectory of the federal deficit – and the federal funding priorities as determined jointly by the President and by Congress. The President’s FY 06 budget would cut funding for many programs in an effort to (1) increase funding for national security and the war effort; (2) make some tax cuts permanent; and (3) reduce the federal deficit, which is now approaching 4% of Gross Domestic Product.

Funding for some federal programs is mandatory, in the sense that outlays are made according to definitions of eligibility and to benefit or payment rules established by law rather than through the annual appropriations process. Such mandatory programs include Medicare, Social Security, unemployment insurance and Food Stamps – the various entitlement programs. The flow of federal dollars for these programs can be changed -- entitlements can be capped, the provisions can be made less or more generous, they can be means-tested, so that only the needy are eligible for benefits -- but only by changing the law. Thus the new Medicare prescription drug benefit could be implemented only through a change in the law.

Discretionary spending represents the rest of federal spending – that which flows through the annual appropriation process. As a general rule, it should be easier to affect the flow of federal dollars for discretionary programs. Potential leverage exists in terms of increasing dollars to the state for some federal grants and procurements. Opportunities for increasing federal wage and salary spending also exist, although these are, in large part, correlated with the addition of new federal facilities (e.g., a new division of a federal agency is located in the state).

Entitlement programs that are written into federal law are difficult to change. Even formulas that are set administratively by the agencies may be difficult to change. With any formula-driven program, it is reasonable to ask what variables are in the formula, how these particular variables may affect the flow to New Mexico versus other states, and whether the data used are accurate. According to a study by the General Accounting Office, New Mexico lost an estimated \$85 million in federal funds during the 1990’s because our population was under-counted in the 1990 Census.

The flows New Mexico receives from entitlement programs depend on eligibility and on payment rules. In the case of Social Security and Federal Employee Retirement, payments are determined by rules that apply equally to all states. While we may formulate strategies that promote retirees to come to New Mexico, we are not able to influence the formulas used in these programs to treat those who reside in New Mexico more favorably than those in other states. In some cases the payment rules may be favorable or unfavorable to the state. Thus, for example, the payments to providers from Medicare are based on reimbursement rates that vary from state to state, supposedly in relation to the costs of providing care. The formulas used in distributing federal highway monies pit eastern high population states against western states where population density is low and the road miles needed to serve these population are very high.

In some cases, the number of people/businesses who actually participate in a particular entitlement program may be far short of those who can meet the eligibility requirements. Thus one way of increasing the flow may be to launch a campaign to enroll all those who are eligible, as has been done to some extent for the Earned Income Tax Credit program and for children in families under 235% of poverty who may be eligible for Medicaid under the State Children's Insurance Program (CHIP). Or, as is the case with Medicaid, the flow may depend upon the amount of matching funds available from State or local government and/or the particular program options in which the state chooses to participate.

Some federal funding flows to New Mexico because of unique assets or as a result of historical circumstances. Thus, DOE procurement dollars flow for the operation of LANL and Sandia NL. DOD monies flow in support of military bases and air flight training missions that seek the unique benefits of New Mexico airspace. National Science Foundation monies flow to the Very Large Array. The federal government's very large land holdings in New Mexico require budgetary support for the Bureau of Land Management, the National Park Service and the Forest Service. Our joint border with Mexico and the flow of immigrants and contraband through the state have together necessitated a major presence of the Immigration and Naturalization Service and border patrol, now part of Homeland Security. Our very large Native American population means a presence by the Bureau of Indian Affairs (Interior Department), including the Indian Health Service (IHS). A large and growing number of Veterans has created demands for a system of Veteran Administration hospitals and clinics and service centers.

And there are many other federal agencies that have offices or other facilities and a long history of operating programs in the state.

Which programs continue to be funded, whether there will be monies for special projects and how New Mexico will fare when these monies are doled out, whether programs funded by formula will give New Mexico an advantage or see us short-changed -- these decisions are ultimately political. The involvement of New Mexico's Congressional delegation and the clout that they have on key committees is critical.

As Palmieri pointed out in a presentation to the New Mexico First Research Committee, however, our best opportunities for influencing the flow of federal dollars may come from the expertise in specific program areas we have in the state -- our "communities of interest." Because of the breadth of the federal programs, there are unique cultures within each program group. These communities of interest develop "insider" expertise in understanding and navigating these cultures. In order to influence the distribution of funds, we must assure that we can tell federal staffers how to change a line in the budget to better meet our needs. Thus, by improving the networks of the various communities of interest and the communication between these groups we can become smarter and we may be better able to get our state needs heard.

Impacts

What funds and support we pursue and where we attempt access is driven by the strategic vision and where we believe we can get the most leverage for the invested resources. The State is currently ranked 4 among the states in terms of the flow of federal dollars per capita and number 1 in dollar return per dollar of federal taxes paid. Yet, as has been pointed out, New Mexico ranks 46th in per capita income and has one of the highest rates of poverty among the states. Maintaining the flow is obviously not enough, yet that may become increasingly difficult. Increasing the flow may be impossible, given the uncertainties of the international situation, the large federal budget deficit, and the intense competition among the states for what may be a shrinking pie of discretionary funds.

Alternative strategies might instead seek to leverage incoming funds both to increase per capita income and to ensure a better distribution of income and wealth. We might seek to leverage incoming funds to enhance infrastructure to attract new and emerging business or to draw those with federal retirements to New Mexico. The goal might be to enhance the attractiveness of New Mexico not just as a place to live, to work, to conduct business, and perhaps to visit, but as a dynamic leader in the development and application of new technologies, a recognized technological center within the global economy. Or perhaps the vision is one of creating a sustainable economy in the desert southwest that can be a model for how people can live in harmony with nature. Whatever the vision, the idea is how to leverage the federal presence in the state and the flow of federal dollars toward making the vision a reality.

The horizontal axis of the above graphic is meant to indicate this leverage. Effectively, what it asks is where we get our greatest “bang for the buck”. Chapter 2 of this report presented some estimates of the total employment and income supported by different areas of federal expenditures. As was pointed out, however, the estimates are for static impacts – they only consider conditions and the economy of the state as it now exists. While it is important to be aware of these static impacts, they are essentially reversible. A base expands, the employment and income supported goes up; the base contracts, the opposite occurs. Missing here are the more dynamic and frequently the more qualitative changes that can and do occur. The expansion of the base may help create a sufficiently large market that a bakery sets up shop in an area of the state where one was not previously located. Thus the community is able to keep more money in the community and increase the local linkages between and among businesses: it substitutes local production for imports. Or consider the possibility that the base closes and the community is forced to think creatively and strategically about how it might better use the base property and other community assets and launches a new economic development strategy.

Alternatively, think about the possibilities when technologies developed with federal monies at our research laboratories or at our universities become the basis for new processes and products and spawn new businesses and possibly whole new industries. Or about the potential in the young people who are the first generation in their families

to receive a college education, or in those who have gone back to school to gain the new skills demanded in the workplace today. Think about how a quality workforce, well educated and with technical and scientific know-how in a particular area can be a force to keep and to attract businesses in certain industries. And think about the various federal programs which when combined with state and local private and public initiatives together could make this a reality.

We have grouped programs out of a conviction that synergies are important and that considering programs or groups of programs in isolation -- ignoring the interconnections that make the whole greater than the sum of its parts -- will result in flawed strategies. We have grouped programs using our best judgment of the nature of the contribution, but others may argue convincingly for inclusion of programs we did not consider, perhaps to exclude some that we have chosen to include. While this Town Hall has been subdivided into three panel discussions -- communities, business / economies, and workforce -- these divisions were logistical decisions made to facilitate the Town Hall format as much as they are conceptual. The panelist should consider how the programs within their panel assignments interact but they may want to consider programs that have been grouped into other panels as well.

METHODOLOGY

Using the Consolidated Federal Funds Report (CFFR) and the detail presented about programs in the Catalog of Federal and Domestic Assistance (CFDA)²⁰, we have assessed the 707 individual programs that benefited the state in FY03. Based on the stated objectives of these programs and our knowledge of how the economy works, we have assigned the programs to the three panel study areas discussed above and then into 17 sub-groups based on purposes served²¹. The panels and the sub-groups included in each panel are shown below in Figure 4.1. The aggregations are designed to draw together programs from different agencies that may affect the economy in similar or complementary ways. Thus under the first subgroup of viable communities, consider how federal facilities -- e.g., military bases, court houses, post offices -- can play a significant role in communities as a source of permanent employment and income.

Table 4.1
TOWN HALL PANELS AND THE GROUPS INCLUDED IN EACH PANEL

²⁰ The CFDA is available at <http://www.cfda.gov/> and provides detail about how grant programs can be used, who can use them, dates for application, etc. The CFDA does not include information on federal procurements.

²¹ In some cases, programs could be used in two or more of the 17 groups. Since the CFFR does not give further indication of how specifically those funds were used, we have allowed some programs to be placed in all relevant groups. This results in some overstatement of the totals in these categories.

Viable Communities	Viable Businesses, Viable Economies	Viable Workforce
<ul style="list-style-type: none"> • Facilities • Land & Resources • Infrastructure • Income Support • Public Safety • Health Care • Native American services • Quality of Life 	<ul style="list-style-type: none"> • Research & Development • Business Development • Energy Development • Federal Lands 	<ul style="list-style-type: none"> • Nutrition & Health • Education • Training • Access • Work Support

As a starting point for Town Hall participants, this chapter offers information on different federal programs. We explore flow of dollars – the amounts involved, the nature of the federal funding stream (e.g., wages and salaries, direct loans), whether funding is by formula and the variables that determine the flow, whether funding in this area has been growing or declining in real terms, and so forth. The aggregation into the 17 groups provides information about the various channels whereby these programs may affect the economy. Therefore, we have the beginning of a framework for discussion of what makes sense for creating a sustainable future for the state (see again Figure 3.1). The information supplied in this chapter is should help ground the discussions. Where one places programs on the axes of Figure 3.1 depends on values; it depends on the prior knowledge and experience that the individual panelists bring to this discussion.

The CFFR covers all states, the District of Columbia, and US Outlying Areas. The CFFR is derived from data collected from Federal agencies at the close of each federal fiscal year. Data used in this chapter was for FY03, the most recently available fiscal year. These data cover Federal expenditures or obligations for the following categories: grants, salaries and wages, procurement contracts, direct payments for individuals, other direct payments, direct loans, guaranteed or insured loans, and insurance. Dollar amounts reported represent either actual expenditures or obligations.

The CFDA is a database of all Federal programs available to State and local governments (including the District of Columbia); federally-recognized Indian tribal governments; Territories (and possessions) of the United States; domestic public, quasi-public, and private profit and nonprofit organizations and institutions; specialized groups; and individuals. For each program, the CFDA identifies the federal agency²² providing the funds and details specifics such as the program objective, the type of assistance offered, who can apply, who can receive program benefits, the variables considered if formula funded, and a host of other aspects related to the program. The program objectives listed within the CFDA were used extensively in placing the panel category groups (communities, economies, or workforce).

²² The CFFR allows one to sum funding by agency. However, since federal agencies often provide awards that are used in the support and creation of viable communities, viable economies, and viable workforces, the funding agency of origin does not necessarily parallel the panel category.

The data provided for New Mexico in the CFFR were aggregated into a series of Excel spreadsheets. With the support of the objectives listed in the CFDA, the data sets were appended with a panel categorization (i.e., communities, economies, workforce) and with a classification code based on the subgroups within each panel (e.g., for communities, sub-group codes would include facilities, infrastructure and income support). In the case of many programs, we could easily make decisions about the appropriate panel and subgroup and allocate accordingly. In other cases, the program could logically be seen as supporting viable communities but also viable businesses and maybe a viable workforce as well. Or maybe within a panel, the program could easily be justified as contributing to more than one sub-group. In these cases, multiple classifications were allowed. Since the CFFR rarely provides sufficient detail to determine how much of each award should appropriately be allocated for communities as against economies or workforce, in most cases of multiple categorizations the full award amount was applied to all relevant categories. For example, if an award of \$100,000 was found to have objectives that could be classified as either workforce or economies, that \$100,000 was counted both in workforce and economies. While the result of this procedure overstates slightly the totals in the categories and some of the totals for the subgroups within each category, it avoids arbitrary decisions about award distribution.

Utilizing this database, a variety of sorts, summations, and analyses were undertaken to formulate the background data presented in the following sections.

TYPES OF ASSISTANCE

Seven categories of assistance provided by the federal government were briefly discussed in Chapter 1: (1) Retirement and Disability Payments; (2) Other Direct Payments to Individuals; (3) Direct Payments to Non-Individuals; (4) Grants; (5) Procurement; (6) Salaries and Wages, and (7) Loans and Insurance. These categories are somewhat helpful in understanding the nature of the flow of federal funds.

Domestic Assistance to Individuals and Others

This broad grouping includes all the programs in the first four categories of federal assistance listed above. Some of these programs are entitlements, with eligibility and payment rules determined by law. Many provide formula funding. According to the CFFR definition, "Formula funds are those allocations made to states or their subdivisions in accordance with distribution formulas prescribed by law [entitlements] or administrative regulation." Formula funded programs are "used for activities of a continuing nature not confined to a specific project." This contrasts with project funds. The project could receive a special appropriation from Congress and be for a single year or for several years. More typically, project grants are made by agencies, often competitively and after review of proposals or applications. The source of money used by the agency to make grants may be on-going but the individual projects funded may receive grants that are limited in duration (e.g., one year, five years), perhaps with provision for extension or renewal.

All the retirement and disability payments to individuals are entitlements. Other payments to individuals are dominated by Medicare, Food Stamps, Unemployment Insurance, Excess Payments for Earned Income Tax Credit -- all entitlement programs. The smaller category of Payments to Non-Individuals includes various federal payments to tribal governments and others for programs providing services to Indians as well as various forms of assistance to farmers and others. However, the largest dollars in this category are for the employer share of life and health insurance premium payments for federal employees.

Grants are an award of financial assistance in the form of money, or property in lieu of money, provided directly by the federal government with no obligation to repay. Of the 707 federal programs that brought money to New Mexico in FY03, 590 (83.5%) were grants. Grants totaled \$4.32 billion of which \$3.17 billion (73.3%) were formula grants. By far the largest formula grant was Medical Assistance Program. At \$1.61 billion, this grant represents 37 percent of the total grant funding during FY03. Behind this was a grant for Highway Planning and Construction just over \$369 million – again, a formula funded grant. The largest not formula funded grant was \$297.9 million from the Interior Department to the state. This is the state's share of revenues received from mineral extraction on federal lands within New Mexico.

Procurement

Procurements as used in the CFFR are contractual commitments for goods and services with outside entities. As reported in the CFFR, these may be actual outlays or the value of obligations for contract actions during FY03. Data are provided based on the primary place of performance (PPP) where the contract was let. Particularly with engineering and professional service contracts (including R&D), BBER's previous research indicates that a New Mexico PPP does not necessarily indicate the work is being done in New Mexico. Thus, with the inclusion of obligations as well as actual outlays and the problematic PPP designation, the procurement data from the CFFR most likely overstate the actual flow to New Mexico in a given year.

Procurements for FY03 amounted to just over \$5.8 billion, of which \$4.2 billion (73%) was for DOE, with most of the money destined to support the state's two National Laboratories, their purchases and the salaries of their employees. The Department of Defense spent almost \$1 billion on procurement in FY 03. The Postal Service and the various Federal agencies with offices in New Mexico are major sources of non-DOE and non-DOD procurement dollars and much of these expenditures stay in New Mexico.

Salaries and Wages

Salaries and wages are those paid to federal government employees located in New Mexico. Salary and wages for FY03 totaled just under \$2 billion and are shown in table 4.2 below. The Department of Defense accounts for almost 41 percent of the total. The salaries and wages for those employed directly by the National Laboratories do not appear in this table as these are contractor run facilities.

Table 4.2
FEDERAL WAGE AND SALARY EXPENDITURES FY03

<u>Federal Organization</u>	<u>Salaries & Wages</u>	
Defense		783,907,015
Active Military	447,699,000	
Reserve & National Guard	49,935,000	
Civilian	285,688,000	
Other	585,015	
Postal Service		252,419,501
Interior		251,090,000
Health & Human Services		139,727,000
Veterans Affairs		102,648,000
Agriculture		88,807,000
Transportation		81,295,000
Energy		72,909,000
Homeland Security		40,576,000
Social Security		40,332,000
Justice		35,991,314
Treasury		15,080,000
All Others		<u>21,167,000</u>
Total		1,925,948,830

Source: BBER analysis of CFFR, FY03

UNM Bureau of Business and Economic Research, 2005

Loans and Insurance

Loans and Insurance constitute an important source of support from the federal government. As was explained in Chapter 1, loans may be either direct or guarantees. Direct loans are financial assistance provided through the lending of federal monies for a specific period of time, with or without a requirement to pay interest. Guaranteed / Insured loans are programs in which the federal government makes an arrangement to indemnify a lender against part or all of any defaults by those responsible for the repayment of loans. Insurance is financial assistance provided to assure reimbursement for losses sustained under specific conditions. Coverage may be provided directly by the federal government or through private carriers and may or may not involve a premium.

Unlike the other sources of federal expenditures in New Mexico, the values for many loans and insurance programs reported by the CFFR may bear little relationship to the actual inflow of federal monies. Guaranteed loans and insurance represent a contingent liability incurred by the federal government but are not an inflow to the state. While not an actual inflow except in the event of a default or a loss, these programs dramatically reduce the risk to private lenders and others, enabling activity which otherwise would not occur.

PANEL AREA 1 – VIABLE COMMUNITIES

The federal presence and the flow of federal funds help to sustain and develop our communities and regions as places in which to live, to work, to do business and to invest. In carrying out its national security and other missions the federal government operates facilities that employ thousands of people across the states and pump millions of dollars into the economy through purchases of goods and services. The federal government also has substantial land and resource holdings across the state that it manages. How these resources are managed can affect the quality of life of local residents as well as providing business opportunities. Federal payments of social security and retirement and cash and non-cash assistance to those in need are important injections into local economies throughout the state. But the federal government helps in other ways, enabling communities to build needed infrastructure, schools, and affordable housing; providing access to health care services; providing additional funding for public safety, environmental protection and a variety of other public purposes. Table 4.3 provides an overview of federal expenditures relating to viable communities by sub-group. Not included in the table but discussed in the text which follows are federal loans and insurance, although these programs meet critical needs.

Table 4.3
OVERVIEW OF VIABLE COMMUNITIES EXPENDITURES

	<u>Total Dollars (FY03)</u>
Facilities	1,746,414,673
Land & Resources	277,922,211
Infrastructure	972,508,671
Income Support	4,978,628,908
Public Safety	365,280,211
Health Care	3,277,445,667
Native American Services	346,199,127
Quality of Life	74,136,070

Source: BBER analysis of CFFR, FY03

Facilities

This category includes military installations, court houses, and the postal service. All expenditures associated with these facilities are included here as well, e.g., DOD non-research procurement, and salaries for non-research defense employees (i.e., military and base support), those employed by the federal courts and the post office.

As Table 4.4 indicates, expenditures on facilities in FY 03 was \$1.7 billion. Military bases make up two-thirds of the funding for facilities in NM. (See Figure 4.2) These facilities, which include Kirtland Air Force Base, Holloman AFB, Cannon AFB and White Sands Missile Range, also support over 57,000 jobs in New Mexico (See Chapter Two for detail on the economic impact of military bases).

Table 4.4

Facility Expenditures for Viable Communities		
	Total dollars (FY03)	Salaries & Wages
Military Bases	1,165,154,799	564,157,015
Government Operations	246,033,119	
Postal Service	72,420,164	252,419,501
All Other	262,806,591	
Total	1,746,414,673	816,576,516

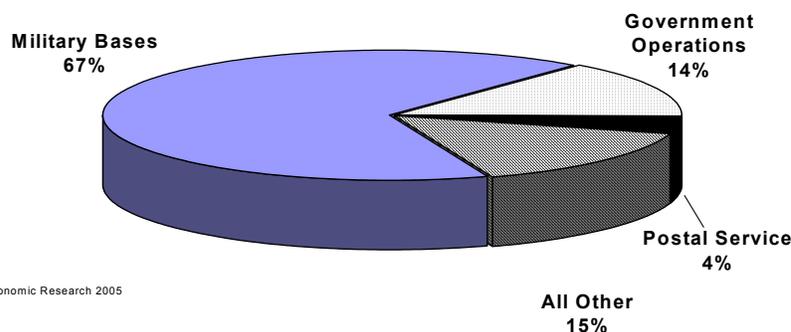
Source: BBER analysis of CFFR, FY03

The Postal Service also has a presence in each community. Some smaller communities use special postmasters who operate out of their own homes while most villages and towns have a dedicated post office. These often become focal points for the community particularly in rural areas. Major cities have additional investments in processing and sorting facilities, which employ hundreds of people in addition to the letter carriers.

Included in Government Operations is procurement by the Public Buildings Service, part of the US General Services Administration. The PBS maintains and builds all of the federally owned buildings in NM (with the exception of the military bases). This includes the federal courthouse in Albuquerque and one that has been authorized in Las Cruces.

In addition to the data shown here, there are 89 buildings in New Mexico leased by the General Services Agency, 41 buildings owned by GSA, 4 military bases and a firing range, and scores of post offices. All of these contribute to the infrastructure and fabric of the community. The federal government, however, does not pay property taxes resulting in possibly foregone revenue for the state and local communities. There is recognition of this regarding federal lands but not federal facilities except by special arrangement.

Figure 4.2
FACILITY EXPENDITURES BY MAJOR FUNCTION



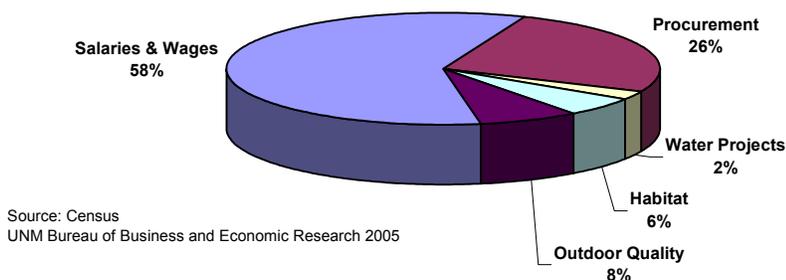
Source: Census
UNM Bureau of Business and Economic Research 2005

Natural Resources

This category includes funds used to maintain and protect federal lands for public use. Included are programs for maintaining lands, development of recreation and tourism, and environmental protection. Programs related to the use of public lands to generate revenue (e.g., extractive industry development) are not included here (see federal lands in viable economies).

The majority of the expenditures under this heading are for salaries and wages. (See Figure 4.3.) Both the forest service and the national park service employ hundreds of people in all parts of New Mexico. The next largest category is procurement. Detail is not available on the exact nature of the procurement, it is likely to be general office and facility maintenance procurement for the federal agencies that manage the land and monitor the environment.

Figure 4.3
NATURAL RESOURCE ALLOCATION OF EXPENDITURES



There is also a significant amount spent, \$10 million, on projects for protection and care of habitat and wildlife. These programs help maintain the fisheries and wildlife stocks which are important not only to the ecosystem but for the recreational hunting industries. In some parts of New Mexico, they are discovering that there is more impact in terms of economic development in preserving the habitat on federal lands for outdoor tourism including hunting rather than in extractive industries.

Another important component of this category is agriculture programs aimed at either conservation or farm protection and consists of over \$50 million. \$19 million went to the Department of Agriculture's Conservation Reserve Program which encourages farms to idle portions of their land. This program is critical to erosion control and soil nourishment and aims to protect the ability of the land to provide over the long term. Another \$15.6 million for Production Flexibility Payments augments the Conservation Reserve Program and has the same goals. The Crop Insurance Program is a system of payments to ensure farms have a minimum level of income, particularly important if there is a drought as in New Mexico. This program is \$18.9 million.

Infrastructure

Infrastructure programs include funds used to build roads, highways, mass transit, and utilities. Also included here are programs that assist in building schools, parks, and housing. (See Table 4.5.) The major program listed here is "Flood Insurance" which is

a program that requires insurance providers to offer flood insurance in some communities. This is the amount of flood insurance that the Department of Homeland Security's Federal Emergency Management Agency (FEMA) underwrites for New Mexican property owners. This program is \$1.3 billion dollars.

Table 4.5
INFRASTRUCTURE EXPENDITURES FOR VIABLE COMMUNITIES

	Total Dollars (FY03)	Direct Loans	Guaranteed/ Insured Loans
Flood Insurance	1,256,393,571		1,256,393,571
Mortgage Insurance	1,098,978,251		1,098,978,251
Transportation and Roads	561,346,709		
Housing Programs excluding Mortgage Insurance	438,926,480	9,265,133	
Other	339,661,927	32,641,880	334,784,565
Total	3,695,306,938	41,907,013	2,690,156,387

Source: BBER analysis of CFFR, FY03

After flood insurance, mortgage insurance is the next largest set of programs. This set includes mortgage insurance for homeowners, condominium owners, and manufactured home insurance. While these programs are just underwriting the risk of lending money for homeownership (and therefore the true value is the value of that risk), the availability of insurance to a broad range of income groups essentially supports the residential construction industry in New Mexico.

Housing programs, including Section 8 Housing Vouchers and Public and Indian Housing, make up 18% of the total (without flood insurance) funding. These programs support communities across New Mexico, particularly those with high levels of poverty. Table 4.6 shows the top ten housing programs.

Table 4.6
TOP TEN HOUSING PROGRAMS

Housing Programs	Total Dollars (FY03)	
Housing Programs	438,926,480	
Loans	195,045,123	44%
Veterans Housing Guaranteed And Insured Loans	166,100,889	
Very Low To Moderate Income Housing Loans (Indirect)	19,679,101	
Very Low To Moderate Income Housing Loans (Direct)	9,265,133	
Grants and Direct Payments	133,698,790	30%
Section 8 Housing Choice Vouchers	89,714,999	
Public Housing Capital Funds	10,580,003	
Home Investment Partnerships Program	10,563,147	
Public And Indian Housing	9,451,271	
Rural Rental Assistance Payments	9,081,791	
Emergency Shelter Grants Program	2,281,749	
Supportive Housing For The Elderly	2,025,830	

Source: BBER analysis of CFFR, FY03

All of these programs help make basic shelter affordable and accessible. It should be noted that most of the housing programs expenditures go to the construction industry and the real estate industry, two very important sectors of New Mexico's economy.

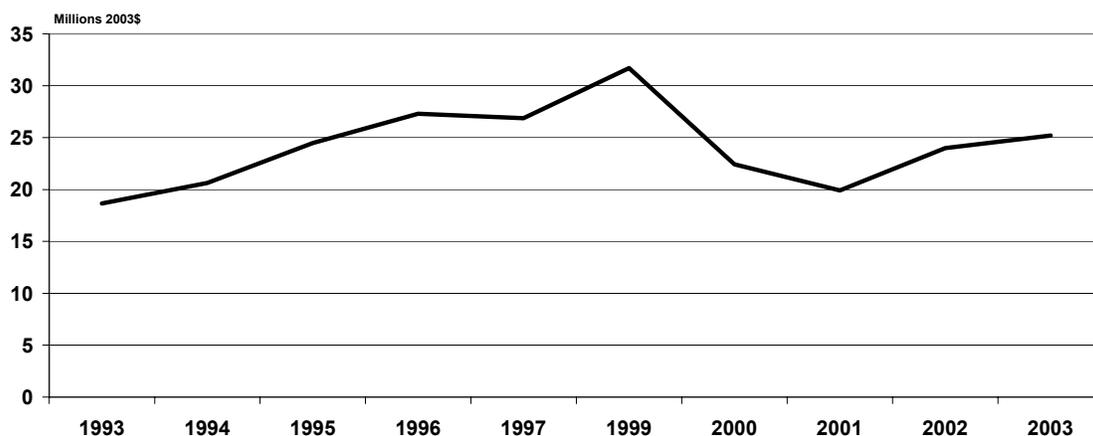
Community development block grants (CDBG) have become a principal method of distributing federal dollars to communities for the purposes of housing assistance, infrastructure, and economic development. The theory is that a community will be able to tailor programs to suit its needs rather than having to apply to several generic programs. According to recent information from the Department of Commerce is that this type of allocation is likely to be even more widely used. The "Strengthening America's Communities Initiative" aims to consolidate grant programs in the different agencies. These funds are allocated by formula with population, poverty and housing density being the primary variables.

In New Mexico, the state level CDBGs are administered by the Department of Finance and Administration Local Government Division and the NM Mortgage Finance Authority, which allocate the resources primarily towards housing and infrastructure (community buildings and roads primarily) with a small percentage to economic development programs. The CDBGs in Albuquerque are administered by the City of Albuquerque and are assumed to follow the same guidelines as the state. There are also CDBGs for the tribes that are discussed later.

Even though the amount budgeted in the new consolidated program is decreasing, New Mexico may actually receive more funding as the new focus will be on low-income communities. Figure 4.7 shows CDBGs since the 90s and includes CDBGs for Entitlement areas (i.e. urban areas such as Albuquerque), Small Cities, and States.

Figure 4.7

COMMUNITY DEVELOPMENT BLOCK GRANTS

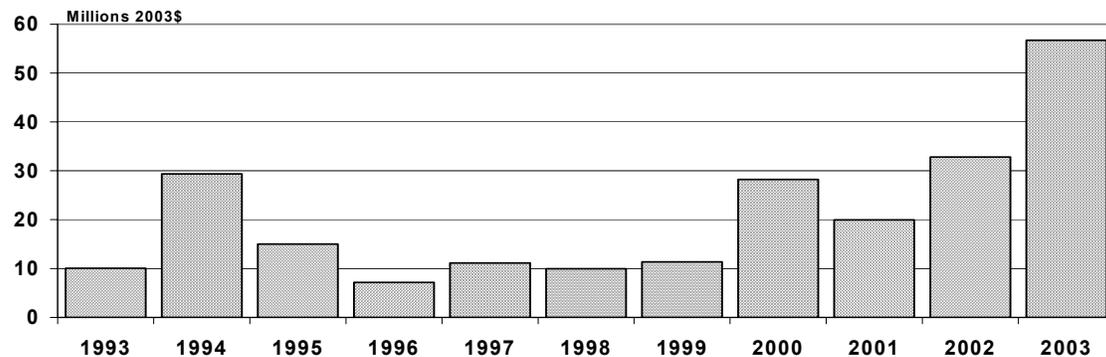


Note: Includes CDBG/Entitlement, CDBG/Small Cities and CDBG/States programs.

Source: Census
UNM Bureau of Business and Economic Research 2005

Another program that helps support NM's infrastructure is the U.S. Army Corps of Engineers, which designs, builds and maintains most of the dams and major water control projects in New Mexico. The funding for this program has gone up to over \$50 million (see Figure 4.8) in FY03, from a historical level of approximately \$10 million. Recent projects include an economic development project in Albuquerque and a habitat protection project along the Rio Grande. The Albuquerque project will provide the environmental infrastructure that is necessary to support the existing business environment at the airport as well as support the future development associated with the relocation of Eclipse Aviation. The habitat protection project along the Rio Grande with the Pueblo of Santa Ana is aimed at protecting the habitat of the silvery minnow, an endangered species.

Figure 4.8
U.S ARMY CORPS OF ENGINEERS



Source: Census
UNM Bureau of Business and Economic Research 2005

Income Support

Income support as used here is any financial benefits to meet basic living needs. Health Care is discussed in a later section and has not been included here. In some cases, these are programs that support the needy such as TANF or Food Stamps. In other cases these are retirement payments made to the elderly or those who have retired from the Federal government. This category also includes payments made to support the disabled. Lastly, subsidies paid to support agriculture are contained in this category.

Thus, the programs under Income Support assist those who are retired, those who are no longer able to work because of disability, those who are not currently working, and those who work but require subsidies to cover insufficient income. Generally, all of these dollars would be classified as entitlements.

Table 4.7 shows a breakdown of the almost \$5 billion expended by the Federal Government on Income Support programs. Not shown in this table is the additional \$40.3 million in salaries paid to those employed by the Social Security Administration in New Mexico.

Table 4.7
INCOME SUPPORT FOR VIABLE COMMUNITIES

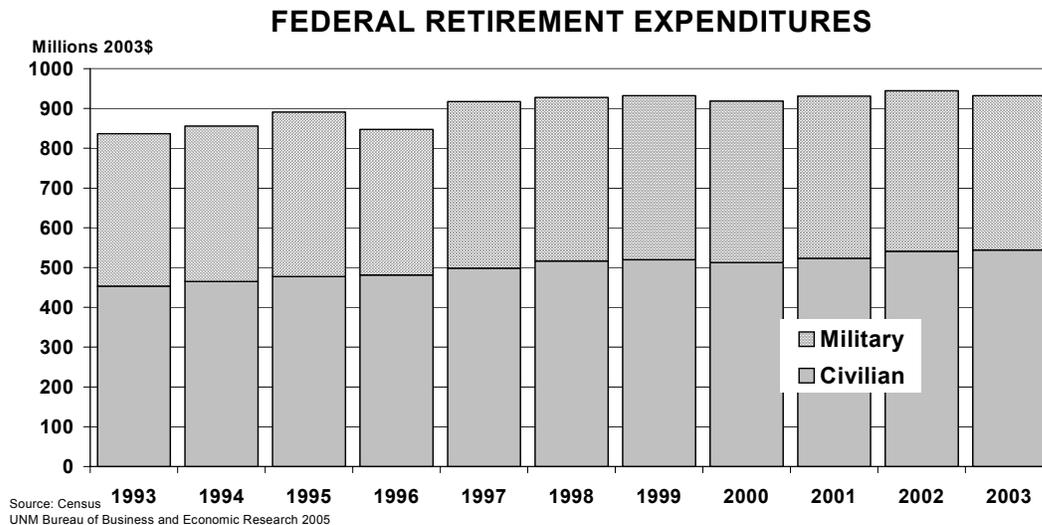
	Total Dollars (FY03)
Retirement	2,720,064,172
Disability	785,176,452
Compensation to Survivors	613,059,131
Public Assistance	806,184,483
Agricultural Susidies	54,144,670
Total	4,978,628,908

Source: BBER analysis of CFFR, FY03

The Retirement category includes all Social Security and Federal retirements. Heading the list was the direct payments made to those being paid Social Security Retirement (\$1.72 billion). Next were those retirement payments made to both Federal civilian (\$544.7 million) and military retirees (\$388 million).²³ Figure 4.9 shows expenditures for federal retirees over a ten-year frame. Total expenditures are approaching \$1 billion.

Under the Disability heading are programs making payments for those who are no longer able to work. The largest of these programs is the Social Security Disability Insurance (SSDI) program. Federal expenditures to New Mexico in FY03 were \$487.5 million. The objective of this program is to replace part of the earnings lost because of a physical or mental impairment, or a combination of impairments, severe enough to prevent a person from working. This program provides direct payments to those who qualify. Qualifications involve having paid in sufficient time into the Social Security system, being under 65, and meeting the disability qualifications as defined in the Social

Figure 4.9



²³ These payments also include the amounts paid to Federal civilian and military personnel who are disabled as well as those who are retired.

Security law. Two veterans programs for the disabled add another \$297.7 million in benefits paid by the Federal Government.

Several programs were included here that provide compensation to the dependents of deceased workers. The goal of the Social Security Survivors Insurance program is to replace part of the earnings lost to dependents because of the worker's death. The Federal Government expended \$558.5 million in support of this program in FY03. Other programs here are compensation programs for the dependents of deceased veterans.

Public assistance is a category that includes a broad variety of programs aimed at supporting those who are needy or unemployed. At \$236.7 million, Supplemental Security Income (SSI) is the largest of the expenditures made by the Federal Government. This is a program administered by the Social Security Administration and provides direct payments to the recipients. The program targets the aged, the blind, and the disabled whose incomes are below a certain level. The objective of the program is to insure that these recipients achieve a minimum level of income.

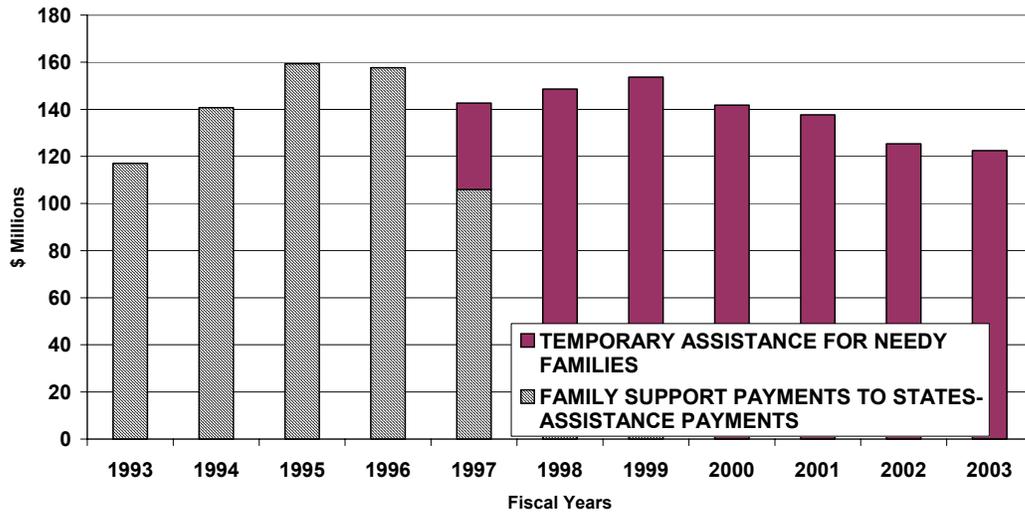
A second substantial program in terms of Federal expenditure is the Food Stamps program at \$183.5 million. This program was similarly categorized under public assistance. The stated objective of the Food Stamps program is to improve diets of low-income households by increasing their food purchasing ability. Unemployment Compensation is also included under the category of public assistance. The Federal government made payments to recipients in New Mexico of \$152.9 million in FY03.

Temporary Assistance for Needy Families, the successor to Aid for Families with Dependent Children only brought \$122.5 million into the state in 2005. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 fundamentally changed welfare and reduced the federal funding available. (See Figure 4.10.) . TANF provides formula grants to States and to Tribes, who have considerable flexibility in establishing eligibility and in setting up programs to help needy families, including cash assistance. Since welfare reform, the emphasis is on "temporary assistance", and, in most cases, cash assistance is limited by federal law to 5 years cumulative over the lifetime of the recipient. The push is to get welfare recipients into jobs. To this end, the monies can be used for education and training and to remove barriers to employment. Some states have used TANF monies to establish a state earned income refundable tax credit program.²⁴

²⁴ New Mexico has long had a refundable tax rebate, the Low Income Comprehensive Tax Rebate, but eligibility for this program is not tied to employment.

Figure 4.10

WELFARE: AFDC AND TANF



Other programs in this category include those supplying food and shelter to the needy.

The final type of income support categorized in the table above was the Federal Government expenditures that subsidize agriculture. In FY03, over \$35 million in agricultural support was offered to agricultural producers in the state.

Public Safety

Public Safety programs include those for the protection of the community from crime, fire, and other emergency situations. Also included under public safety are funds for improving the legal system and delivering justice. Funds used to build and maintain detention facilities are here as well. Finally, monies targeting Homeland Security and agencies securing the National borders have been included in this category.

A total of \$365.3 million were expended for Public Safety programs by the Federal Government in FY03. Table 4.8 categorizes the expenditures.

**Table 4.8
PUBLIC SAFETY EXPENDITURES FOR VIABLE COMMUNITIES**

	Total Dollars (FY03)
Homeland Security	94,016,189
Law Enforcement & Fire Protection	208,754,815
Legal Services / Justice	49,202,906
Detention Facilities	1,799,707
Emergency Preparedness	10,580,998
Disaster Recovery	925,596
Total	365,280,211

Source: BBER analysis of CFFR, FY03

Since 9/11, protecting our country and our homes has become paramount. Funds for meeting this objective are included under the Homeland Security Category. The salaries of Federal employees of the Department of Homeland Security constitute \$40.6 million of this spending. Also included here, is a formula grant of \$36.8 million from the Department of Homeland Security. These funds are designated for the purchase of equipment for local first responders. Within the program, there are also administrative funds for conducting threat and needs assessments and to develop and implement a Statewide Domestic Preparedness Strategy to enhance first responder capabilities to respond to a terrorist incident. The formula driving this program is a base amount to each state with additions to the base amount depending on population.

A total of \$208.8 million in Federal funding was provided for law enforcement, justice, and fire protection services. The data from the CFFR report 65 different sources of funds for the items classified into this category. The largest of these expenditures was for the US Marshals Service. This was a procurement of \$145.2 million (70 percent of the category). The US Marshals Service maintains offices in Albuquerque, Santa Fe, Las Cruces and Roswell. Salaries of the Department of Justice employees involved in these activities totaled to just under \$36 million in FY03.

In FY03, the state received a project grant of \$4.5 million to create partnerships between the police and the community. The stated objective of this program was to increase police presence and improve cooperative efforts between law enforcement agencies and members of the community; to expand community policing efforts through the use of technology and other innovative strategies; to increase security and reduce violence in our nation's schools; to address crime and disorder problems; and to otherwise enhance public safety. Being a project grant, new proposals can be offered each year. The recipient of the funds must be the state.

Another \$4.2 million was provided as grant funding to assist firefighters. Another \$3.7 million grant was provided for promoting the use of seat belts.

Just less than \$6.6 million came to the state through two different FEMA programs and is shown under the Emergency Preparedness category shown in Table 4.8. Roughly \$3.6 million of this total was derived through a consolidated grants program. This program is driven by formula. The other FEMA monies (\$3.1 million) were a procurement used to support FEMA operations here in the state.

Health Care

This category includes expenditures on education and on disease prevention and health promotion. The majority of expenditures, however, are for programs that either provide health care services directly to patients or pay for care that is provided. Some of the programs target the poor; some are targeted at rural communities. Included in this category are Medicare/Medicaid payments to local providers, public and private. Altogether, the Federal Government provided \$3.28 billion in FY03 to support these programs.

By far, the largest single program in the category of health care spending was the Medical Assistance Program (Medicaid). Total expenditure for this program in FY03 was \$1.61 billion -- almost half (49%) of the Federal expenditures for health care in the state. As stated in the CFDA, the objective of Medicaid is to provide financial assistance to States for payments of medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements, and other categorically-eligible groups. This program is a formula grant, however, eligibility is determined by the state in accordance with Federal regulations. The funds are awarded on a quarterly basis based on the state's estimates of funds needed to provide medical assistance to the needy. The funds are available to match state expenditures for medical care. New Mexico's current rate is 71 percent – last year it was 74 percent. This change in the percentage represents a cost to the state that must be borne through additional expenditures by the state or as reduced service. The statistical factors used for fund allocation are: 1) the Medical assistance expenditures for New Mexico; and 2) per capita income for the state based on a 3-year average using BEA data.

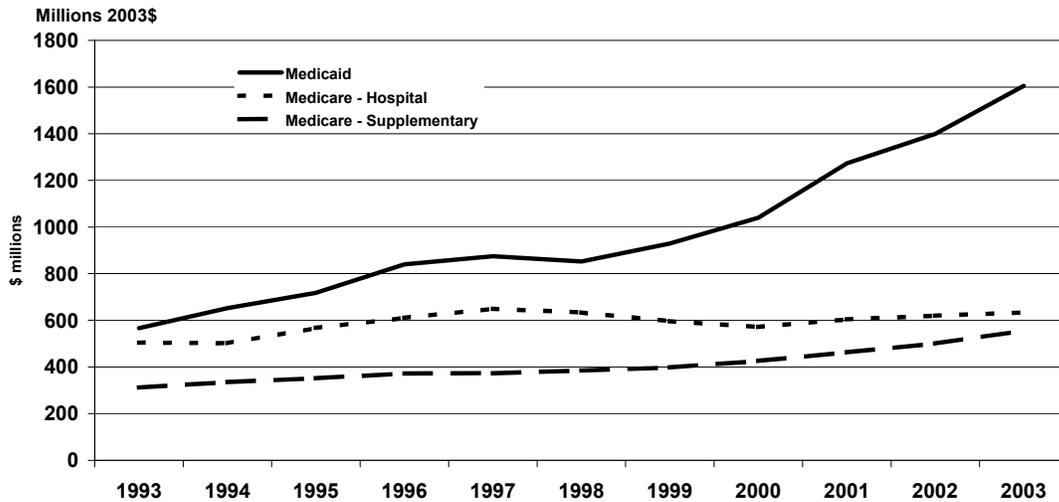
Medicare, which includes Medicare-Hospital Insurance (\$633.6 million in FY 03) and Medicare-Supplementary Medical Insurance (\$566.9 million), accounted for another 36.3 percent of the total expenditures. Thus, when combined, Medicaid and Medicare accounted for over 85 percent of the Federal expenditure for Health Care.

Medicare-Hospital Insurance is designed to provide hospital insurance protection for covered services to persons age 65 or above, to certain disabled persons and to individuals with chronic renal disease. This is an entitlement with no statutory formula or matching requirements. Medicare-Supplementary Medical Insurance provides supplemental coverage to the aged population. As with Medicare-Hospital Insurance, applicants must show proof of age to qualify for these programs. As was noted in an earlier section of this chapter, New Mexico providers receive lower rates of reimbursement than do providers in other states. This is an issue in terms of attracting and keeping health care providers and is believed to have been a consideration when St. Josephs sold its medical facilities to Ardent.

Figure 4.11 shows the growth of these programs over time. The funds brought to the state through these programs have a substantial impact in that they are, for the most part, spent with providers here in New Mexico. For a more detailed discussion of the impact of these programs, the reader is directed to Chapter 2 of this document.

Figure 4.11

MEDICAID / MEDICARE EXPENDITURES



Source: Census
UNM Bureau of Business and Economic Research 2005

Many additional health care programs exist that bring substantial funding (and impact) to the state. The State Children’s Insurance Program (CHIP) is an extension of the Medicaid program that provides funds to New Mexico to initiate and expand child health assistance to uninsured, low-income children. This program aims to fill the gap by assisting children from families whose incomes are just over the level to qualify for Medicaid benefits. Just under \$61 million came to the state for this program in FY03. Funding for this program is obtained through formula grants to the state.

Several federal agency offices (e.g., Veteran’s Affairs, Health and Human Services, and the National Institutes of Health) that provide or support health care services in the state have procurements, for example, for the purchase of supplies, to pay rent, and to purchase services within the state. In FY03 these federal procurement totaled \$87.7 million.

The state also received \$35.9 million through the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). This program is designed to provide, low-income pregnant, breastfeeding and postpartum women, infants, and children to age five determined to be at nutritional risk, at no cost, supplemental nutritious foods, nutrition education, and referrals to health care providers. Again, a formula driven program, these grants are allocated by the Department of Agriculture.

Several programs exist that solicit new and unique projects. There are a series of programs that target various aspects of the aging population including issues of nutrition and abuse. Some of these solicit proposals from public or non-profit organizations (see for example, Special Programs for the Aging – Discretionary Programs). Programs like the Healthy Community Access Program accept applications from community and faith-based organizations for strengthening integrated community health care delivery systems that coordinate health care services for individuals who are

uninsured or underinsured. Hence, while the majority of funds provided by the Federal Government for health care are formula driven or entitlements, there are opportunities for communities and non-profits seeking funds to enhance the health of the people in their regions.

Native American Services

Programs supporting the Native American communities are tabulated in this category. These include funding related to the health care, education, and revenue sharing.

**Table 4.9
NATIVE AMERICAN SERVICES MAJOR PROGRAM AREAS**

	Total Dollars (FY03)
Health Programs	133,365,369
Education Programs	26,579,304
Housing Programs	9,012,830
Other	177,241,624
Total	346,199,127

Source: BBER analysis of CFFR, FY03

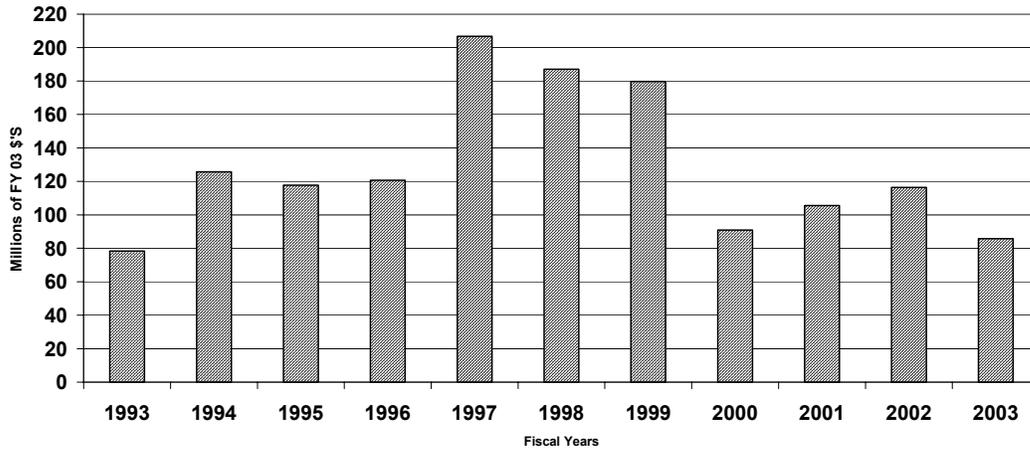
Figure 4.12 shows the trends in federal domestic assistance for Native Americans since 1993.

Health programs make up the bulk of the funds targeting Native American communities. Both the Indian Health Service and the Department of Health and Human Services have significant expenditures promoting the health and well-being of the Native American populations, although IHS has sustained continuing funding cuts. It is telling that the Census Bureau's *Current Population Survey* estimates of the insured population do not include those who only have coverage through IHS. The IHS has a hospital in Albuquerque and clinics around the state. While they provide care directly to eligible Indians, they also contract for services. Some tribes have opted to manage care for their people themselves with funding from IHS. The Albuquerque office of the Indian Health Services is one of 12 service offices in the country (and one of the others is the Navajo nation office, which has significant facilities in Gallup and Crownpoint).

After health programs, Education programs are the next largest group of programs. These are primarily run through the BIA though some are run through other departments such as the Department of Education. In addition to direct support of schools on tribal lands, many education dollars go to school districts in surrounding

Figure 4.12

FEDERAL DOMESTIC ASSISTANCE DESIGNATED AS BEING FOR INDIAN TRIBES, INDIANS OR NATIVE AMERICANS

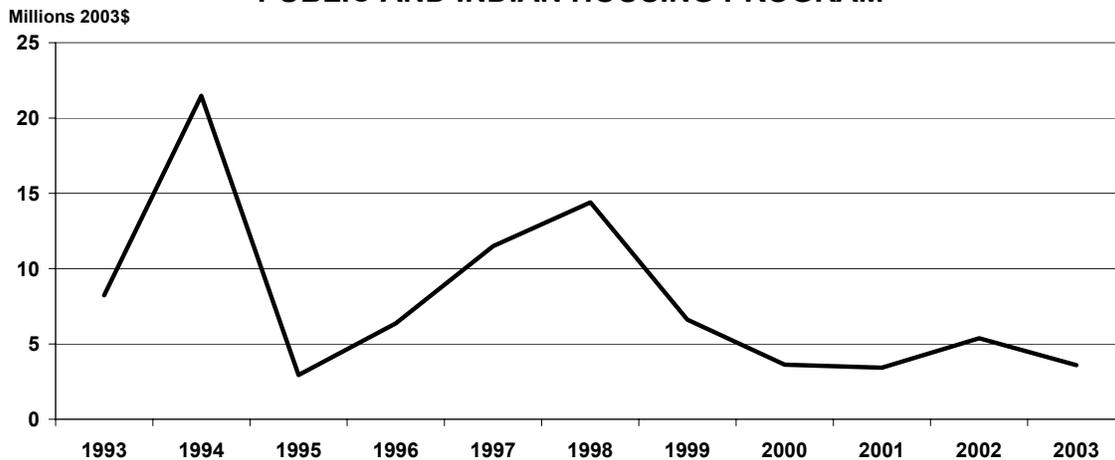


communities. Albuquerque Public Schools, for example, received over \$900 million from the BIA and the Department of Education to undertake the instruction of pupils from virtually all of the Pueblos and other tribes.²⁵

Just as in the Infrastructure category, housing programs targeting Native Americans are significant for providing shelter as well as providing jobs. Housing programs total \$9 million and range from homeownership programs to public housing programs. The main program, the Public and Indian Housing program within the Department of Housing and Urban Development has been declining since a high in 1994.

Figure 4.13

PUBLIC AND INDIAN HOUSING PROGRAM



Note: HUD funding for Public and Indian Housing in counties with large Native American populations.

Source: Census
UNM Bureau of Business and Economic Research 2005

²⁵ <http://www.aps.edu/APS/IndianEd/prog.chart.html>

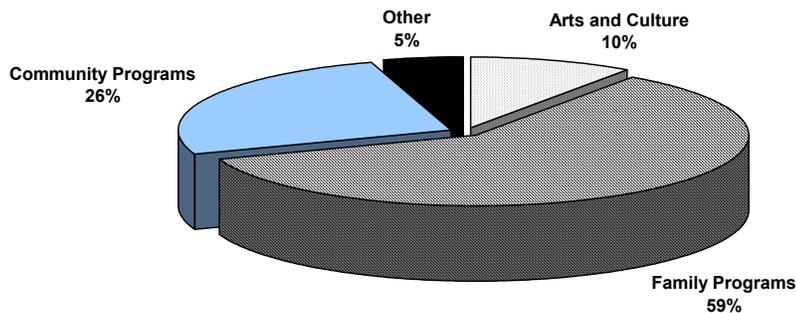
Native American communities also are eligible to receive Community Development Block Grants which can be used for infrastructure, economic development or assistance within a community. In FY03, these amounted to \$3.3 million.

Quality of Life

This category includes many hard-to-classify programs that are used to improve the overall community. Included in this category are libraries and museums. Also included are programs aimed at adoption of children. Figure 4.14 shows how these have been allocated.

Figure 4.14

QUALITY OF LIFE PROGRAMS



Source: Census
UNM Bureau of Business and Economic Research 2005

Family programs include programs for adoption assistance as well as domestic violence education and runaway prevention programs that are not included in other sections. These programs might be considered family support or family creation programs.

The community programs range from social services that do not easily fall into other categories and community activities such as voting or volunteerism. Arts and culture programs are grants for the libraries, museums and support of the arts. These are programs whose impacts are largely intangible and make the community a nicer, better place to live and work.

PANEL AREA 2 – VIABLE BUSINESSES / ECONOMIES

This section discusses the various federal programs that focus on creating and sustaining viable businesses / economies in New Mexico. The objective of this section is to provide background data to support discussion of the role federal funding plays in supporting our economies and in developing new technologies and markets for New Mexico products.

Table 4.10 below shows the four groups included in the viable business / economy category and the dollars received by the state in FY03. As described earlier in this chapter, the CFFR offers insufficient detail to allow proration where a program is used for funding in more than one of the subgroups. Because of this, there are some programs that have been counted in more than one group. Hence, there is some double counting within the panels as well as across panels. While these are generally smaller dollar amount programs, the totals of the three panel areas and of the groups within the panels overstate the actual amount expended by the federal government.

Table 4.10
OVERVIEW OF VIABLE ECONOMIES EXPENDITURES

	Total (FY03\$)	Salaries & Wages	Procurement	Grants & Direct Payments	Loans & Insurance
Research & Development	2,461,271,957	357,920,000	1,938,787,831	164,564,126	
Business Development	2,830,629,750	30,349,000	2,617,818,284	96,640,006	85,822,461
Energy Development	144,113,177	14,130,000	125,177,579	4,805,598	
Federal Lands	360,114,022	35,656,000	25,258,727	299,199,295	

Source: BBER analysis of CFFR, FY03

As can be seen in the table above, R&D makes up the lion's share of the funding used to support New Mexico business / economies. This is largely a function of the multi-billion dollar procurement spending supporting the National Laboratories. The individual groups and the sources of funds are discussed in the following sections.

Research and Development, Technology Transfer

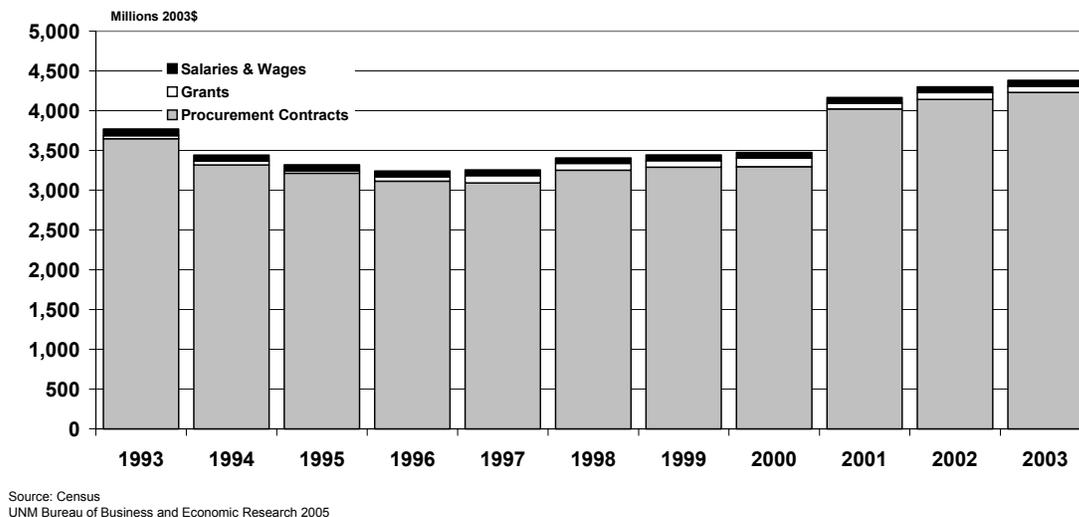
Included in this group are those funds that support or promote research and development of new technologies and the commercialization of those developed technologies. Federal streams to the National Laboratories and New Mexico research universities are included here as is the R&D side of spending for the state's military establishments. Also included are programs designed for bringing technologies to market such as SBIR and other incentive programs oriented to the private sector.

As seen in the table below, procurement is the largest source of funding due largely to the Department of Energy's \$4.2 billion in contracts with Lockheed Martin for Sandia National Laboratories (SNL) and the University of California for Los Alamos National Laboratory (LANL). It should be noted that an estimated one-third of the procurement

for the Labs leaves New Mexico immediately²⁶. However, even with this leakage from the state, the Labs make a mammoth contribution to the state's economy and the R&D work done here.

Figure 4.15 shows the DOE funding to the state over time. Of the federal funding received in New Mexico, the DOE procurements have consistently topped 20 percent of the total.

Figure 4.15
DEPARTMENT OF ENERGY EXPENDITURES

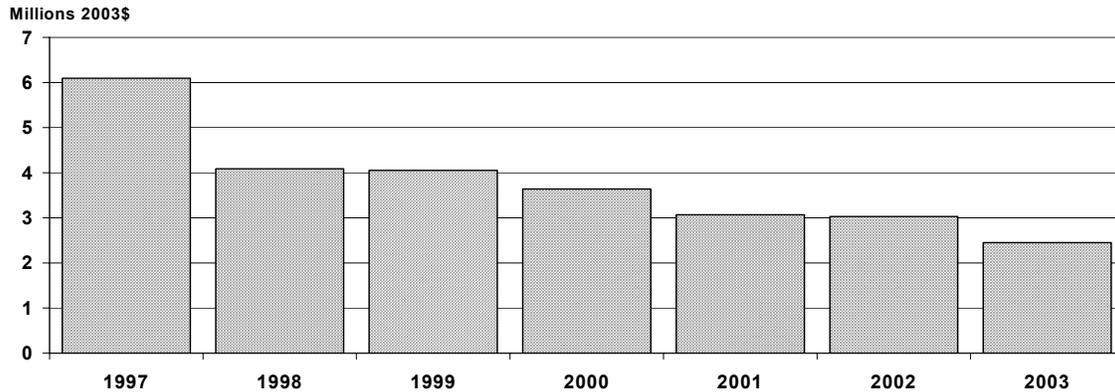


Technology transfer is also a unique element available in NM due to the labs. Figure 4.16 shows the Department of Energy's technology transfer expenditures over the last several years. Even though the current funding level is significantly lower than it was in the early 90s, it has been slowly eroding since 1997.

Figure 4.16

²⁶ As explained in Chapter 2, of the \$5.2 billion funding for SNL, LANL (DOE) and the Air Force Research Laboratories (DOD), \$2.9 billion is actually locally contracted.

DEPARTMENT OF ENERGY TECHNOLOGY TRANSFER PROGRAM



Source: Census
UNM Bureau of Business and Economic Research 2005

An additional \$162 million came to the state in R&D grants. As one might expect, being R&D grant funds, most of this was not determined by formula. Much of this money likely supported various university research endeavors and associated support personnel salaries.

Table 4.11
SUPPORT FOR SCIENTIFIC RESEARCH

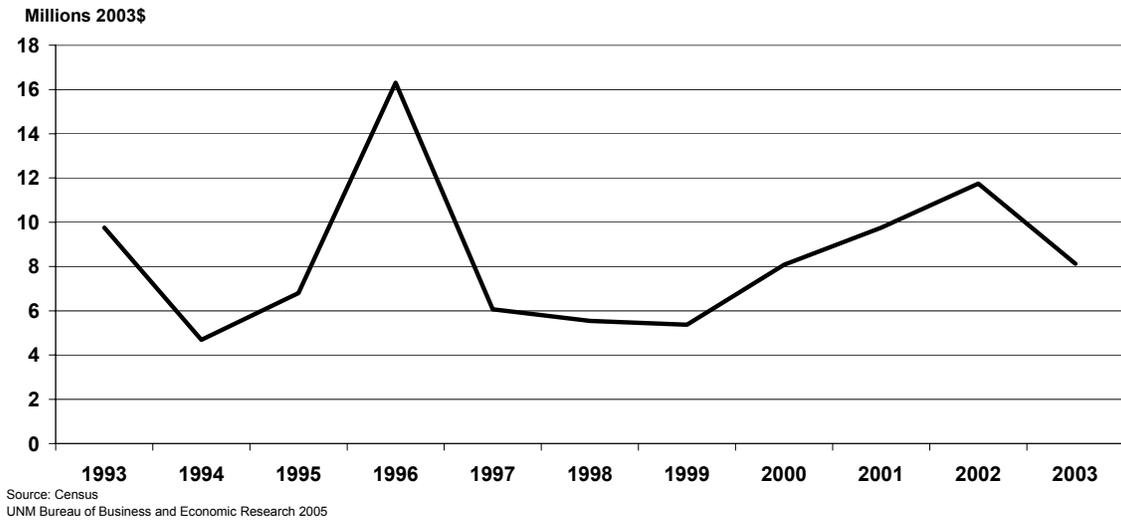
	Total Dollars (FY03)	Share of Grants
Basic Science Programs	61,321,465	37%
Health Science	73,953,704	45%
Total Grants	164,564,126	

Source: BBER analysis of CFFR, FY03

A portion of this money goes to Basic Scientific Research, which generally is for research institutions like UNM. Figure 4.17 shows the trend in funding for Basic Research. These programs are the building blocks for all manner of scientific research and innovation. In many of the high technology fields, particularly materials and nanotechnology, the funding of the basic research that may not have an immediately recognizable application is crucial.

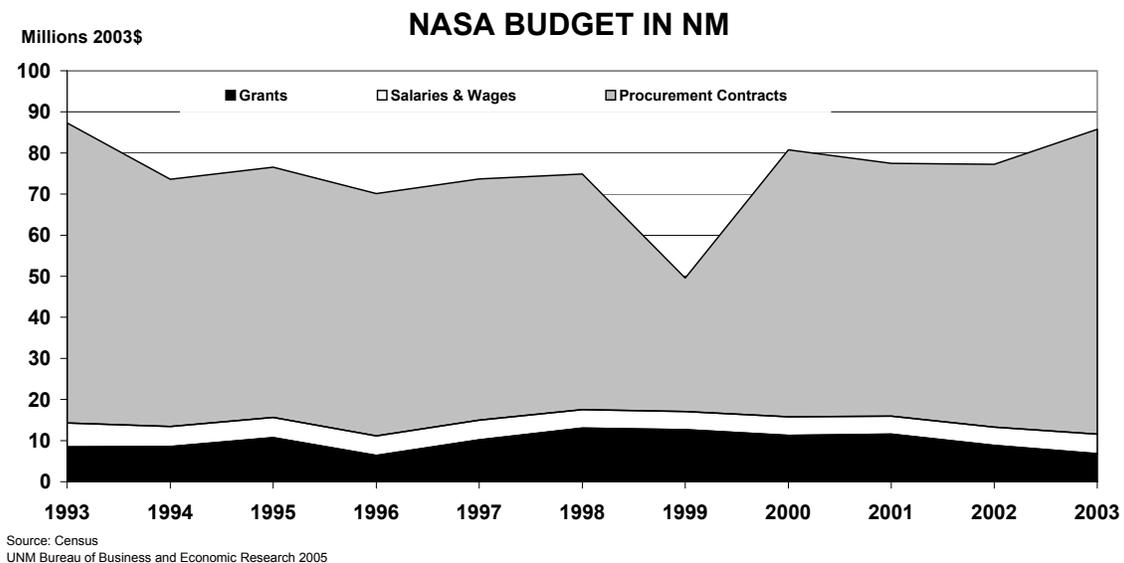
Figure 4.17

BASIC RESEARCH EXPENDITURES



Another exciting program, especially given the private commercialization opportunities and NM's unique position, is the space program. NASA's expenditures in NM have been very consistent over time, even as the agency as a whole has suffered budget cuts at various points. (See Figure 4.18.) Currently, NASA has a procurement budget in NM of \$74.2 million and wages and salaries of \$4.7 million. More than 90% of the procurement and wages and salaries are spent in Dona Ana County to support the mission at White Sands Missile Range. 30% of the procurement is spent at universities and non-profits with \$18 million going to NMSU and \$4.4 million going to UNM.

Figure 4.18



Business Development

In this category are monies in direct support of helping to create and grow New Mexico businesses. For the breakdown, see Table 4.12. Assistance programs offered to business such as those provided by the SBA, various grant and loan programs designed for business promotion, federal tax incentives, and procurements targeted for business are included in the business development category.

Table 4.12
BUSINESS DEVELOPMENT EXPENDITURES FOR VIABLE ECONOMIES

	Total Dollars (FY03)	Loans & Insurance
DOE Procurement in NM ¹	1,130,608,243	
Business Support	113,821,739	57,282,556
Other Procurement	1,487,210,041	
Salaries and Wages	30,349,000	
Agricultural Support	68,640,728	28,539,905
Total	2,830,629,750	85,822,461

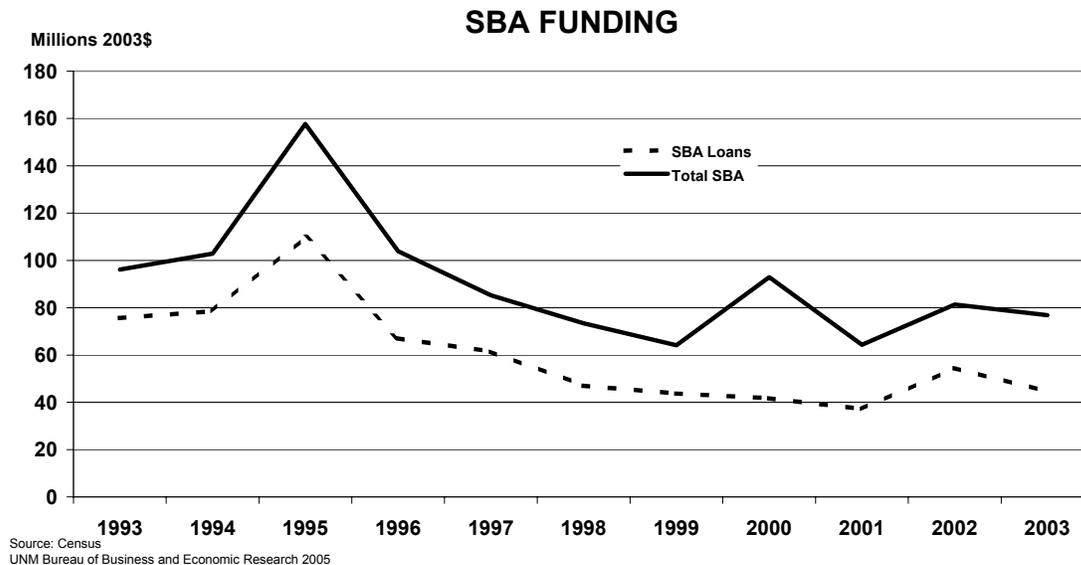
¹ Excluding estimate of salaries paid by SNL and LANL contractors.

Source: BBER analysis of CFFR, FY03

Of the over \$2.8 billion included in the Business Development category, the largest expenditures were for the Department of Energy procurement, which is the estimated amount spent on procurement in New Mexico less the amount that the primary contractors, Lockheed Martin and University of California pay their on-site staff. \$1.5 billion is other agency procurement. Procurement is included here because the procurement of the federal government creates markets for NM companies and allows companies to survive and prosper where they might otherwise not. Additionally, the high tech nature of much of the government procurement has built a high tech cluster in the state.

The term “business development” usually conjures up the notion of small businesses and, more precisely, the Small Business Administration. This agency has \$76.9 million in expenditures, virtually all loan and insurance programs. The largest SBA program, Small Business Loans, makes up 58% of the SBA expenditures in NM. The main criteria for determining size—number of employees and amount of sales—are generous enough that most NM businesses qualify. Though these loans are guaranteed or insured loans and originate with private participating lenders, due to the risk associated with small business investment, it is likely that either there would be far fewer willing lenders or much higher risk premiums (and thus far fewer borrowers) if the program did not exist.

Figure 4.19



One of the largest programs that promotes healthy economies, \$21.4 million, is “Payment in Lieu of Taxes,” which is a program where the federal government makes payments to local governments to recognize that the federal government is a user of local services but not subject to property taxes. This is particularly important in places like Catron County where most of the land is owned by the federal government. These payments work to keep property taxes lower than they otherwise would be which eases the tax burden on businesses and residents. Recognizing that these payments may also allow communities to increase services, this program is cross-listed in the Viable Communities section (Land and Natural Resources).

In addition to the federal funds that flow into the state as documented by the CFFR, there are other federal programs that are significant. Several provisions of the federal tax code reduce the tax liability of some New Mexicans and New Mexican businesses. These are tax expenditures and they should be viewed as federal subsidies.

- State and Local Tax Deductibility** -- High-income tax payers receive a 30% (top federal PIT rate) refund on their state and local income and property taxes.²⁷ Total itemized deductions (only itemized deductions are eligible) for calendar 2001 amounted to \$4.6 billion and saved New Mexico taxpayers an estimated \$742 million in taxes. Of this amount, \$213 million, or 29%, reflected the tax savings due to federal tax deductibility of State and local income and property taxes. In essence, the federal government is paying part of the state and local taxes collected. The savings accrue to the higher income tax payers in New Mexico who get to count a portion of the State and local tax payments against their federal tax liability.

²⁷ Beginning in tax year 2004, taxpayers filing an itemized return may choose whether to apply the state and local tax deduction to their state and local income taxes or to the estimated sales taxes paid during the year as well as to property taxes.

- **Depreciation and Investment Deductions** -- Levels of investment and economic activity are supported by these tax incentives. The deductions particularly benefit those industries selling equipment --retail, wholesale, and manufacturing – as well as those which have large needs for equipment. In the last few years, there have been changes to the federal depreciation schedules aimed at stimulating business investment in an effort to get the economy moving nationally. These changes can affect New Mexico in three ways:
 1. Manufacturing sector, particularly computers and computer equipment suppliers (like Intel), may benefit if policy had encouraged higher than normal investment nationally.
 2. Federal tax liability is lower for businesses whether they are small, sole proprietorships or large corporations.
 3. State tax liability and, as a result, state tax revenues decrease by the amount of the depreciation credit/deduction multiplied by the appropriate income tax rate.

As an example, if a sole proprietor purchased a computer, she would have been able to immediately depreciate 50% of the purchase in 2003. This depreciation amount is deducted from self employment income and so not subject to the marginal tax rate. Since NM uses US adjustable gross income as a starting point for NM taxes, the deduction is carried through and is in effect a state deduction as well.

- **Corporate Income Tax Treatment** – Federal policy governing corporations will have an impact on the state. Because NM takes the federal reported income as the starting point for the state corporate income tax, whatever policies that affect federal income tax will distill down to the state tax calculations. Studies have shown that particular industries have particular advantages.

Energy Development

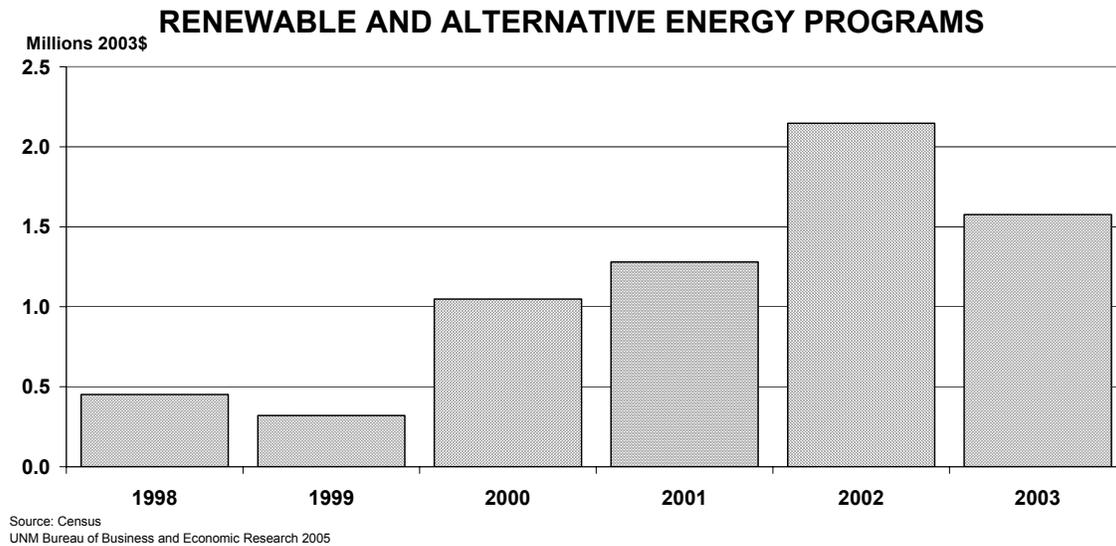
Energy development includes programs specifically oriented to the creation and development of energy products. Also discussed here are tax policies intended to influence energy related development.

The expenditures included here are mostly the non-R&D procurement and wages and salaries for the Department of Energy. There are also a few special programs dealing with renewable energy. The total amount in this category is \$144 million and is derived mostly from procurement. The labs have a role in energy resource research and development as well as the traditional weapons research.

In recent years, renewable energy and alternative energy sources has been identified as a potential economic development tool for New Mexico as the state is rich in solar and wind resources. The federal government has several programs that support this activity in New Mexico. While it is not a lot of money in the larger world of federal funds, these dollars represent a significant portion of the amount currently being spent

on renewable energy research and development. (See Figure 4.20.) In fact, research on solar energy that takes place within Sandia NL (and not explicitly captured in any of the programs in the CFFR) will likely be the starting point for any large-scale applications in New Mexico.

Figure 4.20



Federal Lands

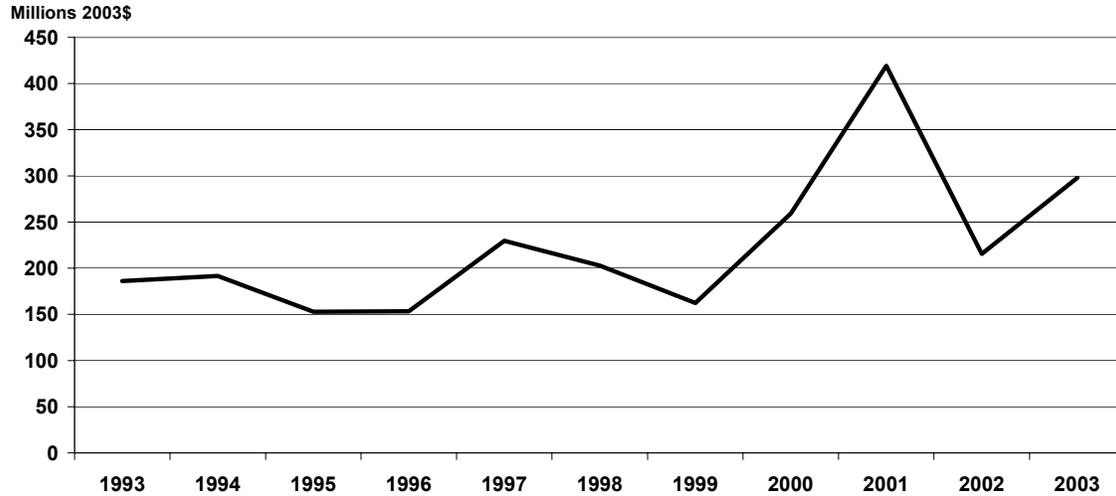
The Federal Lands category aggregates federal programs related to the use of federal lands such as extraction of minerals or oil and gas. This category also includes funding for the creation of new and alternative uses of lands for business and economic development.

The largest program under this heading is the Department of Interior’s Mineral Management Service that shares revenues from the extraction of oil, gas, and other minerals from federal lands with the states. While this money goes directly into NM’s general fund revenues, there is an earmark for the public schools (and so this program is cross-listed in the Viable Workforce section).

New Mexico ranks just behind Wyoming in amount of revenue distributed in 2001, according to Mineral Management Service data. Together, the two states represent 75% of all of the funds distributed under this program.

Figure 4.21

MINERAL REVENUES FROM FEDERAL LANDS



Source: Census
UNM Bureau of Business and Economic Research 2005

In addition to supporting viable communities by providing recreational opportunities, the federal lands also provide significant economic opportunities. The multi-use nature of the federal lands allows for mining, recreation, timber and other income generating resources for both small and large companies.

The major source of funds in this section that helps the state and communities directly through cash payments are the royalty payments for mineral extraction on public lands.

PANEL AREA 3 - Viable Workforce

The programs included in this panel area are programs knitted together by the objective of building a well educated workforce that can supply business and government with efficient and effective employees. As viewed here, these are programs aimed at improving the skills and abilities of the residents of the state. Integral to this is assuring that the nutrition and health needs of the state's children are being met so that they are not at a disadvantage in the classroom. Supporting the creation of a viable workforce also involves helping underserved populations gain access to the services that teach new skill sets and offer support in helping the underemployed and unemployed return to more productive and meaningful work.

As shown in Table 4.13, the Viable Workforce panel area has been subdivided into five sub-categories. The federal programs that support these objectives have been placed within these categories.

Table 4.13
OVERVIEW OF VIABLE WORKFORCE EXPENDITURES

	Total Dollars (FY03)
Nutrition & Health	88,200,419
Education	1,116,280,893
Training	77,219,873
Access	75,123,676
Work Support	642,521,266

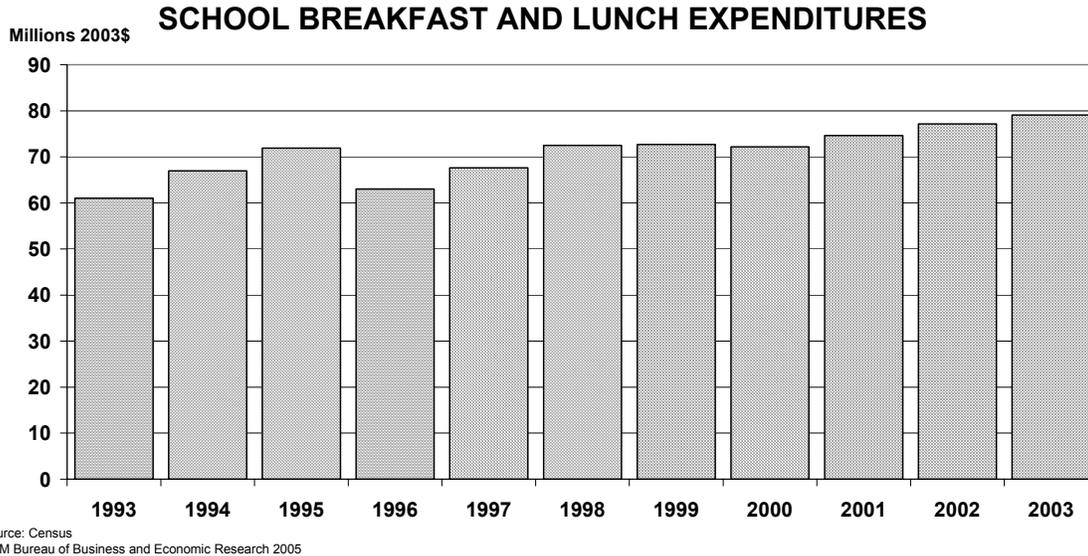
Source: BBER analysis of CFFR, FY03

Nutrition and Health

Nutrition and health programs are instrumental in assuring that New Mexico's children are healthy. Total federal expenditures for these programs in FY03 were over \$88 million. Two programs accounted for almost \$79.1 million (89.7%) of the funds expended – the National School Lunch Program and the School Breakfast Program. Both are grant funded programs targeting schools of high school age or younger.

The National School Lunch Program provided \$60.1 million to participating New Mexico schools. The program serves free lunches to students who have household incomes at or less than 130 percent of poverty and at a reduced price to those whose household incomes are between 130 and 185 percent of poverty. The School Breakfast Program amounted to \$18.1 million and provides breakfast to students that meet the same criteria as the lunch program. Both programs are administered by the state with monthly reports filed by participating schools. Schools are reimbursed based on a formula based on the number of meals served and the household income of the students served. Figure 4.22 below depicts the federal expenditures in actual dollars for the National School Lunch Program and the School Breakfast Program. As can be seen, these programs have had grown in real terms over the ten year period shown.

Figure 4.22



Education

Key to the state in building a viable workforce is an educated populace. Federal programs totaled \$1.12 billion in FY03 and spanned the gamut ranging from those targeting preschool age to those used for advanced degrees. Programs also provided funding for improving teacher quality, charter and magnet schools, support for active duty and reserve military personnel. While many programs were grants directed to the state and local agencies, many important programs supported students directly through loans and grants. Table 4.14 shows the types of programs funded under the assistance provided from the federal government.

Table 4.14
EDUCATION EXPENDITURES FOR VIABLE WORKFORCE

	Total Dollars (FY03)
Shared Revenues from Federal Lands	297,905,000
Preschool	71,475,840
K through 12	404,115,453
Higher education	299,048,380
Adult education	21,191,079
Science and technology education	22,545,141
Total	1,116,280,893

Source: BBER analysis of CFFR, FY03

Topping the list of programs in Table 4.14 is the state’s share of revenues from mineral extraction on federal lands within the state. These revenues are placed into the state’s General Fund. However, the reason they have been included here is that these funds were historically earmarked for use in support of education.

Preschool programs are those to promote school readiness in children who have not yet entered the school system. Preschool programs received \$71.5 million in federal support in FY03. The Head Start program is the largest of those included in this category amounting to \$66.2 million. This program requires that at least 90 percent of those enrolled come from families with incomes below the poverty level. These are project grants made to any local government, federally-recognized Indian tribe, or public or private nonprofit or for profit agency. However, once programs have been established, unlike project grants in other programs, they have long-term continuity in terms of support. New Head Start applications are made in response to announcements soliciting proposals for new or expanded programs. All funds are awarded directly to the grantee and these grantee agencies may subcontract with other child-serving agencies to provide services to Head Start children. Funding to the state supporting existing and new Head Start programs has doubled since 1993.

A variety of programs covering a broad spectrum of objectives were included in the K-12 category. Total funding to K-12 exceeded \$404million in FY03. Included here are the \$86.5 million in payments made by the federal government through the Impact Aid program. This is a formula grant program that provides financial assistance to educational agencies where enrollments or revenues are adversely impacted by Federal activities. For example, this adverse effect might be from the acquisition of real property by the Federal government which causes a reduction in the district tax base or it might be because of the burden put on a school system because children of an adjacent Federal facility attend those schools.

The largest of the funds coming to the K-12 group were those for special education programs. These special education grants provided funds to state and local educational agencies to ensure that free appropriate public education is provided to children and youth with disabilities. The Special Education Grants to States program provided \$152.2 million to New Mexico in FY03 – roughly 38 percent of the funds in this category. The awards for this program are based on formula and made directly to the state. Local agencies then submit applications to the state for sub-grants. Among other things, the formula is driven by a certified count of the number of children (from 3 to 21 years of age) and the average national per pupil expenditure. One could easily rationalize that given the objectives of this grant one could also classify it in the “Access” category discussed later in this report.

The second largest expenditures for K-12 was the \$73.5million in Title I Grants to Local Education Agencies. These are formula grants to help local education agencies (LEAs) and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic standards. These grants are made only to states or state education agencies. LEA's and Indian tribal schools receive funds as sub-grantees to the state.

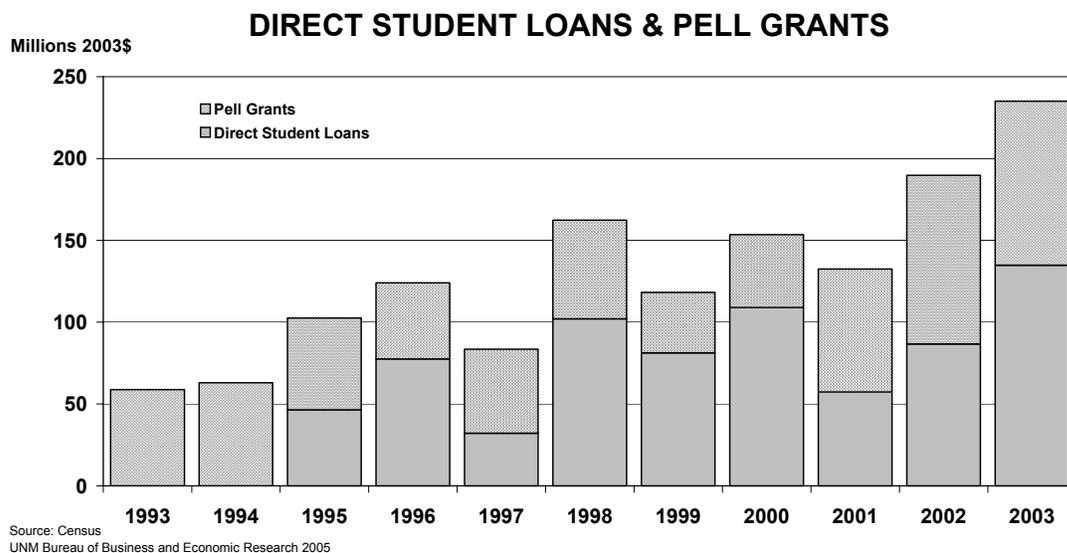
Also included in this K-12 category was the Twenty-First Century Community Learning Centers program. This formula grant program brought \$8.5 million to New Mexico in FY03. The objective of this program is to develop community centers that provide

academic enrichment opportunities for children, particularly students who attend high-poverty and low-performing schools. The formula for this program is based on an allocation in proportion to other states and the amount received in the previous year. There are also matching requirements.

Teacher education and school improvement programs help develop those who are interested in teaching and improve the skills of existing teachers. These funds too were included in the K-12 category. Just under \$24 million of the money received here was from the Improving Teacher State Quality Grant – a grant made to the state to improve teacher and principal quality and thereby improving student outcomes. Funding in the state was first received in FY02 making this a relatively new program.

Higher education received almost \$300 million in FY03. Student loans and grants play an important part in helping New Mexico residents pursue education. Federal assistance through direct student loans and Pell grants accounted for \$235.1 million of the \$300 million in total aid in FY03. Figure 4.23 shows direct student loans and Pell grants over time. Note that the Federal Direct Student Loan program is just now 10 years old so no expenditures are indicated in New Mexico in 1993 and 1994. As depicted, there has been more than a doubling of the use of these instruments since 1995.

Figure 4.23



Included in the \$28.3 million adult education category was the All-Volunteer Educational Assistance program. This program drew \$14.3 million to the state in FY03 and is designed to help servicepersons readjust to civilian life after their separation from military service. This program provides direct payments to those transitioning from military service. Also included in this category were \$7.1 million from the Adult State Grant Program.

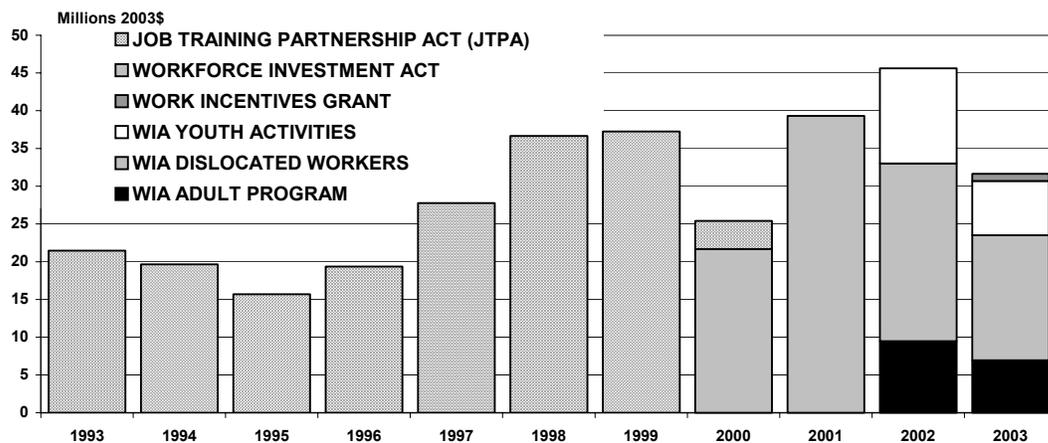
Education and Human Resources was the largest program included in the Science and Technology Education category. At \$12.3 million, this program’s objective is to provide leadership and ensure the vitality of the nation’s science, technology, engineering, and mathematics (STEM) education Enterprise. This program provides program grants to graduate students, public and private colleges, state agencies and others that may be used to cover costs associated with conducting research, educational activities, equipment purchase, travel, etc.

Training

As a category, training includes such programs as workforce investment, training subsidies, impact assistance, and vocational training. About \$77.2 million came to New Mexico in FY03 for training. Almost 45 percent of was due to four Workforce Investment Act (WIA) programs – Dislocated Workers (\$16.6 million), Adult Program (\$7.0 million), Youth Activities (\$7.2 million), and Work Incentives Grant (\$1.0 million). These are grants awarded directly to states or to Workforce Investment Boards. These programs aim to improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of the nation’s economy. The four WIA programs are relatively new. They essentially take the programs out of the WIA, which itself is a replacement of the Job Training Partnership Act. In reality, except for a brief surge in 2002, the FY03 amount of the four programs is equivalent to the levels of funding in the JTPA. See figure 4.24 below.

Figure 4.24

WORKFORCE TRAINING PROGRAMS



Source: Census
UNM Bureau of Business and Economic Research 2005

The WIA funds are all grant funds. Funding for some programs is by formula. The adult and youth programs are both formula driven and are use a formula which includes three factors based on the national distribution of unemployed individuals and disadvantaged adults. The Dislocated Worker program includes both formula grants and project grants. The Work Incentives grant is a program grant and offer substantial flexibility in their use.

Another substantial contribution to the state's training efforts was the \$9.9 million provided through the Vocational Education Basic Grants to States. The objective of this program is to develop more fully the academic, vocational, and technical skills of secondary and postsecondary students who elect to enroll in vocational and technical programs. This is a formula grant that targets a variety of recipients including single parents, displaced homemakers, and single pregnant women. There are uses and restrictions to these funds that dictate exactly how they are to be used.

One interesting program that brought almost \$3 million to the state was the Trade Adjustment Assistance program. Funding is provided through Commerce's Economic Development Administration as project grants and provides assistance to "trade-injured firms" involved in manufacturing. There is a parallel program for training farmers in alternative crops overseen by USDA.

Other significant programs included those targeting or involving senior citizens; e.g., the Senior Community Service Employment Program, the Retired and Senior Volunteer Program and the Geriatric Education Centers. The largest of these in terms of funding received by the state in FY03 was the Senior Community Service Employment Program. The goal of the \$6.8 million dollar program is to provide, foster, and promote part-time work opportunities (usually 20 hours per week) in community service activities for unemployed low-income persons who are 55 years of age and older. Funding for this program comes both as formula and program grants and is available to states as well as to non-profit organizations.

Additional populations benefiting from federal dollars devoted to training included Native Americans, Veterans, and students. There were also training programs addressing occupational safety issues and injury prevention. Several smaller one-time grants were made for mentoring and apprenticeship opportunities.

Access

As envisioned here, access encompasses programs for those with disabilities, training for special needs, ADA compliance assistance, programs targeted at women, at Native Americans and at other minorities, job locators, job search assistance, and veteran's assistance. There is some overlap with the programs discussed under training.

By far, at \$152.9 million, the largest program included in this category was the direct payments made in support of unemployment compensation benefits. Second was the cross-classified Special Education Grants to States. This program was mentioned earlier in the section on education and is included again in this category because it specifically targets the special needs population of the state.

The remaining programs were classified under the four subheadings shown in the Table 4.15 below.

Table 4.15
ACCESS EXPENDITURES FOR VIABLE WORKFORCE

	Total dollars (FY03)
Special Education	18,153,085
Rehabilitation	24,234,664
Minority Populations	23,506,517
Other Programs	9,229,410
Total	75,123,676

Source: BBER analysis of CFFR, FY03

The \$23.5 million in programs targeting minority populations also included program serving Native Americans populations. The Other Programs category included programs with missions to protect and advocate individual rights and to prevent employment discrimination. Also included in the Other Programs category were the TRIO grants. The three TRIO grant programs found here – Student Support Services, Talent Search, and Upward Bound – focus on supporting disadvantaged students in the pursuit of postsecondary education. All of the TRIO programs are provided as project grants to educational institutions.

Work Support

These are programs that provide the support services that are often needed by those who wish to maintain gainful employment but have circumstances that make workforce participation difficult. Included under workforce support are such services as child care, transportation subsidies, targeted assistance and training, bilingual education, and migrant support.

The total of the programs included here amounts to \$527.6 million. Several of these programs have been cross-classified elsewhere in this report. For example, included in this section is the \$39.7 million for Child Care and Development program. This programs support child care for low income families. They have also been included in the section on Viable Communities under the Income Support subcategory.

At \$312.9 million, the largest of the programs included here is the Payments Made by the Federal Government for Excess Earned Income Tax. This program targets low income tax payers with the intent of lifting them above the poverty line. As viewed here, this return is income that helps those with lower income to stay in the workforce – effectively, this program provides a positive incentive to keep people working. This additional margin helps to pay for such things as day care and transportation. The IRS has determined that this program has a “high erroneous pay rate” and is potentially costing the federal government more than it should. At this time, the program is currently being reevaluated by the IRS.

The Temporary Assistance for Needy Families (TANF) has also been included here. This program is also cross-classified in the Income Support category of the Viable Communities panel. The federal government expended \$122.5 million for this program in FY03 and while not entirely dedicated to workforce support, many of the objectives of TANF focus on helping low-income participants move back into the workforce. TANF funds are formula driven, however the state has discretion as to how these funds should be distributed. Hence, were the state to be convinced to take a different direction strategically, there is some flexibility in to how these funds could be spent.

The Child Care and Development Block Grant (\$19.9 million) and the Child Care Mandatory and Matching Funds of the Child Care and Development Fund (\$19.8 million) mentioned above are both formula grants made directly to states, Tribes, and tribal organizations. These programs are both designed to help low income families overcome child care challenges of working parents and in helping those parents achieve independence from public assistance.

Other programs included here are those devoted to bilingual education, English language acquisition, migrant education, and literacy programs. These programs provide skills to help targeted groups transition into the workforce. These programs totaled to \$30.6 million in FY03. The largest of these were the formula grants provided to the state assist in English language acquisition (\$6.2 million) and those to bilingual education totaling \$5.4 million.

Appendix 1.A

TOP FIVE AGENCIES BY NM COUNTY

Appendix 1.A
TOP FIVE AGENCIES BY NM COUNTY

	Amount (2003 \$Mil)		
	1995	2003	% CAG
Bernalillo County	4,519.6	5,974.7	3%
Dept of Energy	1,858.1	2,196.4	2%
Dept of Defense	1,012.9	1,033.4	0%
Dept of Health and Human Services	677.6	989.6	4%
Social Security Administration	734.4	911.6	2%
Dept of Housing and Urban Development	236.5	843.8	15%
Catron County	16.0	23.7	4%
Social Security Administration	5.2	8.7	6%
Dept of Agriculture	3.9	6.2	5%
Dept of Health and Human Services	4.0	5.1	3%
Other	2.0	2.4	2%
USPS	1.0	1.3	4%
Chaves County	303.6	328.0	1%
Dept of Health and Human Services	78.7	125.1	5%
Social Security Administration	109.9	118.5	1%
Dept of Homeland Security	22.9	54.1	10%
Dept of Agriculture	29.6	21.7	-3%
Dept of Transportation	62.5	8.5	-20%
Cibola County	87.8	97.2	1%
Social Security Administration	25.0	34.5	4%
Dept of Defense	18.3	20.3	1%
Dept of Health and Human Services	28.5	18.6	-5%
Dept of Interior	6.1	13.4	9%
Dept of Agriculture	9.9	10.4	1%
Colfax County	56.2	76.4	3%
Social Security Administration	25.9	30.5	2%
Dept of Health and Human Services	18.5	28.8	5%
Dept of Agriculture	3.8	7.0	7%
Dept of Defense	3.2	5.1	5%
Other	4.8	4.9	0%
Curry County	436.6	447.9	0%
Dept of Defense	237.0	183.2	-3%
Dept of Health and Human Services	55.5	85.0	5%
Dept of Agriculture	46.9	81.2	6%
Social Security Administration	53.0	62.4	2%
Dept of Homeland Security	44.2	36.2	-2%
De Baca County	21.1	15.8	-3%
Dept of Health and Human Services	4.7	6.4	4%
Social Security Administration	5.5	5.3	0%
Dept of Agriculture	3.1	2.8	-1%
Other	1.2	1.0	-1%
Dept of Transportation	6.6	0.2	-32%

TOP FIVE AGENCIES BY NM COUNTY, p. 2

	Amount (2003 \$Mil)		
	1995	2003	% CAG
Dona Ana County	908.6	1,123.8	2%
Dept of Defense	345.6	345.7	0%
Dept of Health and Human Services	166.4	253.7	5%
Social Security Administration	189.3	250.1	3%
Other	148.7	159.0	1%
Dept of Homeland Security	58.7	115.3	8%
Eddy County	321.4	417.1	3%
Dept of Energy	97.1	124.7	3%
Dept of Health and Human Services	77.3	111.7	4%
Social Security Administration	101.4	110.1	1%
Dept of Homeland Security	29.2	39.9	4%
Dept of Agriculture	16.4	30.8	7%
Grant County	135.8	170.7	3%
Social Security Administration	59.4	71.8	2%
Dept of Health and Human Services	44.6	63.6	4%
Dept of Agriculture	17.0	16.0	-1%
Other	8.5	10.7	3%
Dept of Veterans Affairs	6.3	8.6	4%
Guadalupe County	25.7	53.1	8%
Dept of Health and Human Services	7.3	23.8	14%
Dept of Transportation	4.5	15.3	15%
Social Security Administration	7.0	8.1	2%
Dept of Agriculture	3.6	4.2	2%
Other	3.4	1.7	-8%
Harding County	5.7	7.4	3%
Dept of Agriculture	1.8	2.0	1%
Social Security Administration	2.1	2.0	-1%
Dept of Health and Human Services	1.2	1.7	4%
Dept of Commerce	0.0	1.0	
USPS	0.6	0.6	0%
Hidalgo County	26.0	38.8	5%
Dept of Health and Human Services	8.3	12.2	4%
Social Security Administration	8.9	9.4	1%
Dept of Transportation	0.7	6.5	28%
Dept of Veterans Affairs	1.7	6.0	15%
Dept of Agriculture	6.5	4.7	-4%
Lea County	247.2	320.6	3%
Dept of Health and Human Services	76.2	105.7	4%
Social Security Administration	94.2	100.7	1%
Dept of Homeland Security	42.5	54.7	3%
Dept of Agriculture	18.9	42.6	9%
Dept of Housing and Urban Development	15.4	16.9	1%

TOP FIVE AGENCIES BY NM COUNTY, p. 3

	Amount (2003 \$Mil)		
	1995	2003	% CAG
Lincoln County	78.0	104.4	3%
Social Security Administration	30.3	44.0	4%
Dept of Health and Human Services	17.6	24.3	4%
Dept of Homeland Security	7.0	15.6	9%
Dept of Transportation	10.6	10.9	0%
Other	12.6	9.6	-3%
Los Alamos County	1,401.6	2,098.8	5%
Dept of Energy	1,349.9	2,004.6	4%
Dept of Homeland Security	0.2	27.8	77%
Dept of Health and Human Services	17.5	27.3	5%
Social Security Administration	17.7	22.0	2%
Dept of Defense	16.3	17.1	1%
Luna County	102.4	135.0	3%
Social Security Administration	44.3	53.8	2%
Dept of Health and Human Services	28.6	45.7	5%
Dept of Agriculture	13.5	20.7	5%
Other	12.4	8.0	-5%
Dept of Defense	3.6	6.9	7%
McKinley County	301.3	500.2	6%
Dept of Health and Human Services	122.3	271.2	9%
Social Security Administration	59.1	74.0	3%
Dept of Education	36.1	60.1	6%
Dept of Interior	49.4	58.2	2%
Other	34.5	36.8	1%
Mora County	23.3	42.6	7%
Dept of Health and Human Services	5.9	25.9	18%
Social Security Administration	8.6	10.0	2%
Dept of Agriculture	1.9	3.8	8%
Dept of Veterans Affairs	1.0	2.0	8%
Dept of Interior	5.8	0.9	-19%
Otero County	587.8	627.4	1%
Dept of Defense	383.5	339.4	-1%
Social Security Administration	65.2	90.3	4%
Dept of Homeland Security	48.3	86.7	7%
Dept of Health and Human Services	52.5	72.2	4%
Other	38.3	38.7	0%
Quay County	66.1	77.3	2%
Dept of Health and Human Services	16.6	29.2	7%
Social Security Administration	19.7	23.0	2%
Dept of Agriculture	17.0	18.6	1%
Other	6.7	3.4	-7%
Dept of Transportation	6.1	3.0	-7%

TOP FIVE AGENCIES BY NM COUNTY, p. 4

	Amount (2003 \$Mil)		
	1995	2003	% CAG
Rio Arriba County	150.6	288.6	7%
Dept of Health and Human Services	60.6	137.6	10%
Social Security Administration	53.7	66.1	2%
Dept of Agriculture	19.8	37.5	7%
Dept of Homeland Security	8.7	31.2	15%
Dept of Interior	7.9	16.1	8%
Roosevelt County	117.8	155.5	3%
Dept of Health and Human Services	25.1	41.9	6%
Dept of Agriculture	36.7	39.6	1%
Dept of Homeland Security	18.6	30.1	6%
Social Security Administration	26.9	29.0	1%
Dept of Education	10.6	14.9	4%
San Juan County	338.0	506.0	5%
Dept of Health and Human Services	110.0	205.7	7%
Social Security Administration	125.7	168.2	3%
Dept of Interior	55.3	48.3	-1%
Dept of Education	25.1	42.5	6%
Dept of Agriculture	22.0	41.2	7%
San Miguel County	135.5	208.6	5%
Dept of Health and Human Services	53.1	126.1	10%
Social Security Administration	43.9	47.8	1%
Dept of Agriculture	17.7	14.8	-2%
Dept of Education	8.5	13.0	5%
Other	12.2	6.9	-6%
Sandoval County	319.2	486.5	5%
Social Security Administration	91.0	136.7	5%
Dept of Housing and Urban Development	59.8	135.6	10%
Dept of Health and Human Services	69.8	112.9	5%
Dept of Homeland Security	76.7	62.5	-2%
Dept of Veterans Affairs	22.0	38.7	7%
Santa Fe County	530.7	867.6	6%
Dept of Health and Human Services	187.3	331.3	7%
Social Security Administration	154.3	253.9	6%
Dept of Justice	23.5	127.5	21%
Dept of Education	52.2	126.3	10%
Dept of Agriculture	113.4	28.5	-14%
Sierra County	81.4	101.0	2%
Social Security Administration	33.8	38.2	1%
Dept of Health and Human Services	23.5	36.0	5%
Other	9.3	9.0	0%
Dept of Veterans Affairs	6.0	9.0	5%
Dept of Agriculture	8.8	8.8	0%

TOP FIVE AGENCIES BY NM COUNTY, p. 5

	Amount (2003 \$Mil)		
	1995	2003	% CAG
Socorro County	64.3	127.6	8%
Dept of Health and Human Services	21.7	37.4	6%
Dept of Homeland Security	6.3	35.6	21%
Social Security Administration	18.3	25.6	4%
Dept of Defense	8.7	15.8	7%
Dept of Interior	9.3	13.3	4%
Taos County	104.0	181.7	6%
Dept of Health and Human Services	33.3	81.4	10%
Social Security Administration	38.1	55.5	4%
Dept of Agriculture	17.1	18.1	1%
Dept of Homeland Security	6.1	16.5	12%
Other	9.5	10.2	1%
Torrance County	42.7	94.9	9%
Dept of Agriculture	7.8	35.0	18%
Social Security Administration	16.4	23.4	4%
Dept of Health and Human Services	13.4	23.2	6%
Dept of Homeland Security	1.7	7.9	19%
Dept of Transportation	3.4	5.4	5%
Union County	37.9	40.3	1%
Dept of Agriculture	14.0	17.4	2%
Dept of Health and Human Services	7.1	11.6	6%
Social Security Administration	8.4	9.2	1%
USPS	1.9	1.9	0%
Dept of Transportation	6.5	0.2	-31%
Valencia County	302.9	594.4	8%
Dept of Homeland Security	92.3	316.8	15%
Social Security Administration	78.0	105.6	3%
Dept of Health and Human Services	86.2	102.5	2%
Dept of Housing and Urban Development	15.1	39.1	11%
Other	31.3	30.4	0%
State Undistributed	741.6	1,302.4	6%
Dept of Treasury	188.4	344.2	7%
Dept of Interior	222.6	329.0	4%
Dept of Education	188.4	264.9	4%
Dept of Transportation	17.0	211.4	32%
Dept of Labor	125.2	152.9	2%

Source: US Census, CFFR

Note: In the right most column on each page, CAG stands for Compound Annual Rate of Growth.

Appendix 2.A

IMPLAN PRO2 MODEL

Appendix 2.A

IMPLAN PRO 2.0 MODEL

IMPLAN Pro 2.0 was used to model the impacts of federal expenditures on the New Mexico economy. IMPLAN is a widely used and well-regarded input-output model based on several sources. A standard input-output model measures the interactions amongst hundreds of industries using the “make” and “use” tables published every five years by the US Department of Commerce Bureau of Economic Analysis based on results from the Economic Census, which is conducted every five years by the US Census Bureau. These tables capture business expenditures on goods and services and their factor purchases (e.g. labor services) by detailed industry. In the model, each industry produces certain goods and services that are then used as inputs by other industries and/or delivered to final demand – i.e., sold to households, to government, exported outside the region. IMPLAN uses these tables and regional information from other sources, like the Department of Labor, to create local input-output models down to the State, county and Zip Code level.

One of the features of IMPLAN-like models is the capability to estimate the amounts of different goods and services that must be purchased outside of the state or the region (commonly referred to as “leakages”) because of limited local production. Large leakages, as inputs and equipment are purchased outside the region, mean less local production, jobs, and income – and lower multipliers.

Using an input-output model, appropriate multipliers for the indirect and induced effects can be developed and estimates made of the impacts on the state or regional economy of particular projects (start-up of a new production facility, reduction in the flow of Medicaid payments to New Mexico health care providers, Department of Energy procurement for operation of the national laboratories).

IMPLAN databases include national expenditure patterns for all of the industrial sectors as well as for households and government. In other words, if no data is available on project expenditures by industrial sector, the IMPLAN databases can be used to identify impacted sectors and to estimate purchases. The IMPLAN data on household spending patterns is by income group and thus can be used to estimate the impacts of employee spending but also the spending from retirement and social security payments.

BBER has validated IMPLAN Pro 2.0 results for New Mexico in other studies, where both IMPLAN and BBER’s FOR-UNM model have been used to estimate economic impacts.

Appendix 3.A
COMMITTEES

SENATE

Senate Committees (16)

Agriculture, Nutrition, and Forestry
Appropriations
Armed Services
Banking, Housing, and Urban Affairs
Budget
Commerce, Science, and Transportation
Energy and Natural Resources
Environment and Public Works
Finance
Foreign Relations
Health, Education, Labor, and Pensions
Homeland Security and Governmental Affairs
Judiciary
Rules and Administration
Small Business and Entrepreneurship
Veterans Affairs

Special, Select, Other

Indian Affairs
Select Committee on Ethics
Select Committee on Intelligence
Special Committee on Aging

Joint

Joint Committee on Printing
Joint Committee on Taxation
Joint Committee on the Library
Joint Economic Committee

HOUSE OF REPRESENTATIVES

House Committees (20)

Committee on Agriculture
Committee on Appropriations
Committee on Armed Services
Committee on the Budget
Committee on Education and the Workforce
Committee on Energy and Commerce
Committee on Financial Services
Committee on Government Reform
Committee on Homeland Security
Committee on House Administration
Committee on International Relations
Committee on the Judiciary
Committee on Resources
Committee on Rules
Committee on Science
Committee on Small Business
Committee on Standards of Official Conduct
Committee on Transportation and Infrastructure
Committee on Veterans' Affairs
Committee on Ways and Means

Special, Select and Other

House Permanent Select Committee on Intelligence

Joint

Joint Committee on Printing
Joint Committee on Taxation
Joint Committee on the Library
Joint Economic Committee

Appendix 3.B

SUBCOMMITTEES OF THE HOUSE AND SENATE APPROPRIATIONS COMMITTEES

STRUCTURE AND JURISDICTION THROUGH THE 108TH CONGRESS

Appendix 3.B
HOUSE APPROPRIATIONS SUBCOMMITTEES 108TH
(With jurisdictions)

Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies:

Department of Agriculture (Except Forest Service); Farm Credit Administration; Farm Credit System Financial Assistance Corporation; Commodity Futures Trading Commission; Food and Drug Administration (HHS)

Subcommittee on Commerce, Justice, and State, the Judiciary, and Related Agencies:

Department of Commerce; Department of Justice; Department of State (Except International Narcotics Control; International Organizations and Programs [voluntary contributions]; Migration and Refugee Assistance; Nonproliferation, Anti-terrorism, Demining and Related Programs; Peacekeeping Operations [voluntary contributions]; U.S. Emergency Refugee and Migration Assistance Fund; Economic Support Fund); The Judiciary; Related Agencies: Commission for the Preservation of America's Heritage Abroad; Commission on Civil Rights; Commission on Ocean Policy; Commission on Security and Cooperation in Europe; Equal Employment Opportunity Commission; Federal Communications Commission; Federal Trade Commission; International Trade Commission; Legal Services Corporation; Marine Mammal Commission; Office of the United States Trade Representative; Securities and Exchange Commission; Small Business Administration; State Justice Institute; Broadcasting Board of Governors

Subcommittee on Defense:

Department of Defense-Military; Departments of Army, Navy (including Marine Corps), Air Force, Office of Secretary of Defense, and Defense Agencies (Except Military Construction); Central Intelligence Agency; Intelligence Community Staff

Subcommittee on District of Columbia:

District of Columbia

Subcommittee on Energy and Water Development:

Department of Energy (Except the Economic Regulatory Administration; Energy Information Administration; Office of Hearings and Appeals; Strategic Petroleum Reserve; Naval Petroleum and Oil Shale Reserves; Fossil Energy Research and Development; Clean Coal Technology; Energy Conservation; Alternative Fuels Production and Related Matters); Department of Defense-Civil; Department of the Army, Corps of Engineers-Civil; Department of the Interior; Bureau of Reclamation; Central Utah Project; Related Agencies: Appalachian Regional Commission, Defense Nuclear Facilities Safety Board, Delta Regional Authority, Nuclear Regulatory Commission, Nuclear Waste Technical Review Board, Tennessee Valley Authority

Subcommittee on Foreign Operations, Export Financing and Related Programs:

Agency for International Development; Department of Defense: Foreign Military Financing Program, International Military Assistance and Training; Department of State: International Narcotics Control and Law Enforcement, International Organizations and Programs (voluntary contributions), Migration and Refugee Assistance, Nonproliferation, Anti-terrorism, De-mining, and Related Programs, Peacekeeping Operations (voluntary contributions), U.S. Emergency Refugee and Migration Assistance Fund; Department of State and Agency for International Development (shared): Assistance for Eastern Europe and the Baltic States, Assistance for the Independent States of the Former Soviet Union, Economic Support Fund, Famine Fund and Global AIDS Initiatives; Department of the Treasury: Debt Restructuring, International Affairs Technical Assistance, International Monetary Fund, Multilateral Development Banks; Export-Import Bank; Overseas Private Investment Corporation Peace Corps Trade and Development Agency Related activities African Development Foundation Inter-American Foundation Millennium Challenge Account

Subcommittee on Homeland Security:

Department of Homeland Security

Subcommittee on Interior and Related Agencies:

Department of the Interior (Except Bureau of Reclamation); Department of Energy: Economic Regulatory Administration, Energy Information Administration, Office of Hearings and Appeals, Elk Hills School Lands Fund, Strategic Petroleum Reserve, Naval Petroleum and Oil Shale Reserves, Fossil Energy Research and Development, Clean Coal Technology, Energy Conservation, Alternative Fuels Production and Related Matters, Alaska Gas Pipeline Authorities; Other Agencies: Advisory Council on Historic Preservation, Commission of Fine Arts, Forest Service (USDA), Holocaust Memorial Council, Indian Health Services and Facilities (HHS), Institute of American Indian and Alaska Native Culture and Arts Development, John F. Kennedy Center for the Performing Arts, National Capital Planning Commission, National Foundation on the Arts and the Humanities (Except Institute of Museum and Library Services), National Gallery of Art, Navajo and Hopi Indian Relocation Commission, Presidio Trust, Smithsonian Institution, Woodrow Wilson International Center for Scholars

Subcommittee on Labor, Health and Human Services, Education, and Related Agencies

Department of Education; Department of Health and Human Services (Except Food and Drug Administration; Indian Health Services and Facilities); Department of Labor; Related Agencies: Armed Forces Retirement Home, Corporation for National and Community Service (VISTA and seniors programs only), Corporation for Public Broadcasting, Federal Mediation and Conciliation Service, Federal Mine Safety and Health Review Commission, Institute of Museum and Library Services, Medicare Payment Advisory Commission, National Commission on Libraries and Information

Science, National Council on Disability, National Education Goals Panel, National Labor Relations Board, National Mediation Board, Occupational Safety and Health Review Commission, Railroad Retirement Board, Social Security Administration, United States Institute of Peace

Subcommittee on Legislative Branch

House of Representatives; Joint Items; Architect of the Capitol (Except Senate Items); Botanic Garden; Congressional Budget Office; General Accounting Office; Government Printing Office; John C. Stennis Center; Library of Congress, including: Congressional Research Service, Copyright Arbitration Royalty Panel, Copyright Office, National Film Preservation Board; United States Capitol Preservation Commission

Subcommittee on Military Construction

Military Construction, Army, Navy (including Marine Corps), Air Force, and Defense Agencies, and Reserve Forces; Military Family Housing; DOD Base Closure Account; DOD Family Housing Improvement Fund; DOD Military Unaccompanied Housing Improvement Fund; Homeowners Assistance Fund; NATO Security Investment Program

Subcommittee on Transportation and Treasury, and Independent Agencies

Department of Transportation; Treasury Department (Except Community Development Financial Institutions); United States Postal Service: Payment to the Postal Service Fund; Executive Office of the President: Armstrong Resolution, Compensation of the President, Council of Economic Advisers, Executive Residence at the White House, Federal Drug Control Programs (High Intensity Drug Trafficking Areas Program, Special Forfeiture Fund), National Security Council, Office of Administration, Office of Management and Budget, Office of National Drug Control Policy, Office of Policy Development, Official Residence of the Vice President, Special Assistance to the President, Unanticipated Needs, White House Office; Independent Agencies: Architectural and Transportation Barriers Compliance Board, Committee for Purchase From People Who Are Blind or Severely Disabled, Federal Election Commission, Federal Labor Relations Authority, Federal Maritime Commission, General Services Administration (Except Consumer Information Center), Merit Systems Protection Board, Morris K. Udall Scholarship and Excellence in National Environmental Policy Foundation, National Archives and Records Administration, National Historical Publications and Records Commission, National Transportation Safety Board, Office of Government Ethics, Office of Personnel Management and Related Trust Funds, Office of Special Counsel, Panama Canal Commission, United States Tax Court, Washington Metropolitan Area Transit Authority; General Provisions, Government wide

Subcommittee on Veterans Affairs and Housing and Urban Development, and Independent Agencies

Department of Veterans Affairs; Department of Housing and Urban Development; Independent Agencies: Agency for Toxic Substances and Disease Registry (HHS, formerly EPA/Superfund), American Battle Monuments Commission, Cemeterial Expenses, Army (DOD), Chemical Safety and Hazard Investigation Board, Community

Development Financial Institutions (Treasury), Federal Consumer Information Center (GSA), Consumer Product Safety Commission, Corporation for National and Community Service, Council on Environmental Quality and Office of Environmental Quality, Court of Appeals for Veterans Claims, Environmental Protection Agency, Federal Deposit Insurance Corporation - Office of Inspector General, National Aeronautics and Space Administration, National Credit Union Administration, National Institute of Environmental Health Sciences (HHS, formerly EPA/Superfund), National Science Foundation, Neighborhood Reinvestment Corporation, Office of Science and Technology Policy, Selective Service System

Appendix 3.C

CHANGES IN JURISDICTION FOR THE 109TH CONGRESS



302(B) ALLOCATIONS & THE HOUSE / SENATE APPROPRIATIONS BILLS 109th Congress

House

Senate

New House Subcommittees	Jurisdiction Gained	Jurisdiction Lost
Agriculture		No Change
Defense		To Military Quality of Life: Basic Allowance for Housing; Facilities Sustainment, Repair and Modernization; Defense Health Programs; Environmental Programs
Energy & Water	From Interior: DOE Energy Programs From Labor-HHS: Weatherization Assistance Grants	
Foreign Operations		No Change
Homeland Security		No Change
Interior and Environment <small>[formerly "Interior"]</small>	From VA-HUD: EPA; Agency for Toxic Substances and Disease Registry; Council on Environmental Quality; Nat'l Institute of Environmental Health Sciences; White House Commission on Nat'l Moment of Remembrances	To Energy & Water: DOE Energy Programs
Labor-HHS-Education	From VA-HUD: AmeriCorps	To Energy & Water: Weatherization Assistance Grants
Military Quality of Life and Veterans Affairs <small>[formerly "Military Construction"]</small>	From VA-HUD: Veterans Affairs; American Battle Monuments Comm; Army Cemeterial Expenses; Court of Appeals for Veterans Claims From Defense: Basic Allowance for Housing; Facilities Sustainment, Repair and Modernization; Defense Health Programs; Environmental Programs	
Science-State-Justice-Commerce <small>[formerly "Commerce-Justice-State"]</small>	From VA-HUD: NASA; National Science Foundation; Office of Science and Technology Policy	To Transpo-Treasury: Judiciary
Transportation-Treasury-HUD-Judiciary-DC <small>[formerly "Transportation-Treasury"]</small>	From VA-HUD: HUD; CDFI; Federal Consumer Information Center; Selective Service Commission; CPSC; NCUA; Neighborhood Reinvestment Corporation; FDIC Inspector General From C-J-S: Judiciary From DC: D.C.	

Source: House Appropriations Committee

New Senate Subcommittees	Jurisdiction Gained
Agriculture	No Change
Defense	No Change
District of Columbia	No Change
Energy & Water	From Interior: DOE Energy Programs
State, Foreign Operations	From C-J-S: State Department
Homeland Security	No Change
Interior	From VA-HUD: EPA; Agency for Toxic Substances and Disease Registry; Council on Environmental Quality; Nat'l Institute of Environmental Health Sciences; White House Commission on Nat'l Moment of Remembrances
Legislative Branch	No Change
Labor-HHS-Education	From VA-HUD: AmeriCorps
Military Construction and Veterans Affairs <small>[formerly "Military Construction"]</small>	From VA-HUD: Veterans Affairs; American Battle Monuments Comm; Army Cemeterial Expenses; Court of Appeals for Veterans Claims; Selective Service System
Commerce-Justice-Science <small>[formerly "Commerce-Justice-State"]</small>	From VA-HUD: NASA; National Science Foundation; Office of Science and Technology Policy
Transportation-Treasury-Judiciary-HUD <small>[formerly "Transportation-Treasury"]</small>	From VA-HUD: HUD; CDFI; Federal Consumer Information Center; CPSC; NCUA; Neighborhood Reinvestment Corporation; FDIC Inspector General From C-J-S: Judiciary

Source: Senate Appropriations Committee

(10 Subcommittees)

(12 Subcommittees)

Chart from Dept of Army

Appendix 3.D

APPROPRIATIONS SUBCOMMITTEE CHAIRS

Note that one agency may have to deal with more than one subcommittee.

Highlights show which committees deal with Defense Department

109 th Congress, 1 st Session Committee Structure	
House	Senate
Henry Bonilla (R-TX) Agriculture: Department of Agriculture and related agencies; Food and Drug Administration	Robert F. Bennett (R-UT) Agriculture: Department of Agriculture, rural development and related agencies
David L. Hobson (R-OH) Energy and Water Development: Department of Energy and related agencies; Army Corps of Engineers	Pete V. Domenici (R-NM) Energy and Water Development: Department of Energy and related agencies; Army Corps of Engineers
Harold Rogers (R-KY) Homeland Security: Department of Homeland Security	Judd Gregg (R-NH) Homeland Security: Department of Homeland Security
Ralph Regula (R-OH) Labor, Health and Human Services and Education: Departments of Labor, Health and Human Services, Education and other agencies	Arlen Specter (R-PA) Labor, Health and Human Services and Education: Departments of Labor, Health and Human Services, Education and other agencies
Frank R. Wolf (R-VA) Science, State, Justice and Commerce: Departments of State, Justice and Commerce; NASA	Richard C. Shelby (R-AL) Commerce, Justice and Science: Departments of Commerce and Justice; NASA
C.W. Bill Young (R-FL) Defense: Military spending and intelligence programs	Ted Stevens (R-AK) Defense: Military spending and intelligence programs
Jim Kolbe (R-AZ) Foreign Operations: International development programs	Mitch McConnell (R-KY) State and Foreign Operations: Department of State and international development programs
Charles H. Taylor (R-NC) Interior and Environment: Department of the Interior and related agencies; EPA and environmental programs	Conrad Burns (R-MT) Interior: Department of the Interior and related agencies, EPA
James T. Walsh (R-NY) Military Quality of Life and Veterans Affairs: Military construction and family housing, Department of Veterans Affairs	Kay Bailey Hutchison (R-TX) Military Construction and Veterans Affairs: Military construction and family housing, Department of Veterans Affairs
Joe Knollenberg (R-MI) Transportation, Treasury, HUD, the Judiciary and the District of Columbia: Departments of Transportation, Treasury and Housing and Urban Development; federal judiciary; District of Columbia	Christopher S. Bond (R-MO) Transportation, Treasury, the Judiciary and the District of Columbia: Departments of Transportation, Treasury and Housing and Urban Development; federal judiciary
	Mike DeWine (R-OH) District of Columbia: Federal assistance to the District of Columbia
	Sam Brownback (R-KS) Legislative Branch: Operations of the House and Senate