LFC HEARING BRIEF

DATE: May 12, 2009
****UPDATED: July 7, 2009**

PURPOSE OF HEARING:
Survey of Economic Development Initiatives

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EXPECTED OUTCOME:
General Information

Agencies and programs involved in economic development include:

Equity Investments and Loans
- State Investment Council Private Equity Investment
- Small Business Investment Corporation
- SIC Film Investment
- New Mexico Finance Authority
  - Smart Money Loan Participation
  - New Markets Tax Credit
- State Treasurer's Office
  - Linked Deposit

Capital Project Appropriations
- Various programs

Grants
- Economic Development Department
  - Job Training Incentive
  - Main Street
  - Business Incubator
  - Co-Op Advertising

Tax Credits
- Taxation and Revenue Department
- N.M. Small Business Assistance

Direct Appropriations and Flow-Through Funding
- Small Business Development Centers
- EDD Film Office
- EDD flow-through funding

BACKGROUND INFORMATION

Economic development policy is a high priority for most state policymakers. One definition of economic progress is "the discovery and application of better ways of doing things to satisfy our wants." The absence of a universally accepted statewide strategic plan makes it difficult to envision a statewide economic development or capital project plan. The Pew Center on the States *Grading the States 2008* project noted that, despite improvements in New Mexico, "the statewide capital plan remains a collection of agency and local government plans…" and the oversight agency "…does not seem to prioritize projects on a statewide level." The same can be said about statewide economic development initiatives.

New Mexico offers a variety of economic development incentives through widely ranging programs including equity investment, loans, capital outlay, grants, tax credits, and direct appropriations. All should be considered pieces of a whole. Many agencies and programs play a part, significant funding is involved, programs appear to be fragmented or duplicated, and credible performance outcomes are lacking. Program fragmentation and duplication or overlap can waste administrative resources and increase the chance of gaps in services, thus creating an environment in which participants are not served as efficiently and effectively as possible.

Financial Investment. The following table presents a summary of state-funded investment in economic development initiatives. The total is an estimate because there is no real way to capture all economic development incentives offered or all "players" involved. Programs are fragmented, and information collected was inconsistent, incomplete, or simply not provided. Exhibit 1 provides detail.

Table 1. Partial Summary of State-Funded Economic Development Initiatives
(in millions)

Category	Prior Years	2007	2008	2009	FY10	Total (2007-2010)
Equity investments and loans		$104.66	$105.75	$89.69		$300.10
Capital projects (>$1 million)	$31.22	$14.94	$34.50			$80.66
State grants		$8.52	$9.37	$8.36		$26.25
Tax credits	$76.69	$33.43	$46.00			$156.12
Direct appropriations and flow through		$7.15	$8.16	$8.46	$8.49	$32.26
Total Investment	**$107.91**	**$168.70**	**$203.78**	**$106.51**	**$8.49**	**$595.39**

Source: Agency and Program Data, LFC files.

Note: Prior-year tax credits include 2002 through 2005. Corporate incentive tax credits were only available through 2006. Tax credits for 2008 include only the film production tax rebate. Prior-year capital project funding includes 2004 through 2006. Yearly funding and may be on a state, federal, or calendar year basis.

Selected Job Creation (Retention) Data – FY07-FY09

Program	Jobs Created
SIC Private Equity	1,370
SBIC	2,809
SIC Film	1,794
NMFA Smart Money	309
NMFA New Markets Tax Credit	1,000
Capital Projects	Unknown
EDD Grants	
Job Training Incentive Program	4,756
Main Street	1,288
Business Incubators	1,372
Tax Credits	
TRD	Unknown
Lab Small Bus. Assistance	119
SBDCs	2,519
EDD-Flow-through Funding	
Economic Development Corporation (NM Partnership)	7,748
Manufacturing Extension Partnership	1,478
Total	**26,562**

Source: Program Data.
Note: FY09 data may be year-to-date or estimated.

Job creation data is not comparable or unavailable.

- SIC film measures number of N.M. crew, not full-time jobs.
- NMFA Smart Money does not calculate return on investment.
- Capital project and tax credit data does not track jobs created.
- Job Training Incentive Program reports number of workers trained, not jobs created.
- The full public investment is unknown for business incubators.
- Business incubator outcomes spanned 10 years.
- Some programs report on a calendar year basis.
- It is not known what programs report through EDD.
- EDD provided partial information in response to LFC inquiries. **

Performance Accountability. Standardized statewide performance outcomes cannot be reported for the same reasons stated earlier. Some data is proprietary. It is important to note that the purpose of certain investment programs is not simply to create jobs, but to generate revenue for the state. Some programs excel in partnering, openness, and exceptional outcome reporting (Small Business Investment Corporation, Main Street, Santa Fe Business Incubator, Small Business Development Center network). The table to the left shows jobs created for selected programs. Limited information or program structure precluded calculation of cost per job created for most programs.

Program fragmentation occurs in circumstances where more than one agency or different parts of an agency are involved in the same broad category of activity; program duplication or overlap exists when programs have something in common. Program duplication can be avoided, in part, through coordination of programs. Frequently, overlapping programs are differentiated by legislative or regulatory restrictions that target funding on the basis of demographic characteristics.

In general, improvement to the low-level performance outcomes provided for multi-million dollar programs is needed. Centralized information is not available about overall state return on all public funds invested in specific economic development projects, including tax credits and deductions, industrial revenue bonds, Local Economic Development Act funding, tax increment district financing, loans, grants, and capital project funding. A statewide economic development plan and incentive agreements are needed that link incentives to performance, establish minimum standards for both job creation and retention, and require clawbacks for non performance.

BEST PRACTICES

Best practice states can be identified through economic development assessment reports, such as the Corporation for Enterprise Development (CFED) *Development Report Card*, the Beacon Hill Institute *Eighth Annual State Competitiveness Report*, and the Information Technology and Innovation Foundation and Kauffman Foundation *2008 State New Economy Index*. Exhibits 2A and 2B summarize comparative state rankings on all three assessment reports and present detailed information on indices and outcomes used.

Each report assesses different criteria. CFED uses 67 measures broken down into three main indices - performance, business vitality, and development capacity - to assess how the economy is performing for citizens and businesses and how well a state is situated for its future. The Beacon Hill Institute uses eight indicators and defines highly

New Mexico's Ranking Change Compared to Other States

Assessment Report	2007	2008
2007 Development Report Card (trends span varying time spans)		
Average Performance Trend	15	
Average Business Vitality Trend	5	
Average Development Capacity Trend	37	
2008 State New Economy Index	33	29
Eighth Annual State Competitiveness Report	29	34

Source: Corporation for Enterprise Development; Information Technology and Innovation Foundation and Kauffman Foundation; Beacon Hill Institute.

Note: The CFED *Development Report Card* was discontinued in 2007.

States desiring to improve economic development practices should carefully review assessment reports.

Utah: "You don't get a dime until we get a dollar."

Utah's most important performance outcomes are:

- Number of jobs "incented,"
- New state revenue,
- Capital investment, and
- New state wages.

competitive states as those that have the policies and conditions in place that ensure and sustain a high level of per capita income and continued growth. The outcome of competitiveness is greater affluence, measured by higher levels of personal income per capita. The New Economy Index measures the economic structure of states, as opposed to reports that measure state economic performance. Overall, the report uses 29 indicators, divided into five categories.

North Carolina. CFED prepared a toolkit in March 2005 to educate the North Carolina General Assembly on the impact of economic development incentives on the state. The materials prepared are for the most part applicable to thinking about business incentives in other states as well. Recommendations included creating more transparency in the incentive process, tying that process to other budget priorities, and requiring companies that receive state tax subsidies to provide family health insurance coverage and pay a living wage. The article, *Just say "No": A Guide to Distinguishing Good Incentive Deals,"* points out that the issue of business incentives is one of the most important areas where more prudent, cost-effective, and accountable public investments are needed. CFED found that (1) state and local governments seem to cater to every whim of businesses, regardless of whether the businesses need financial assistance; (2) there is an "auction market" where states and localities have intensified their efforts to attract firms and jobs with incentives; and (3) state and local government incentive policies are often poorly designed and implemented because they focus on meeting the private, rather than the public, interest.

Utah. With a statewide strategic plan championed by the governor, Utah offers post-performance incentives only, either as tax credits or grants. The policy change from pre- to post-performance incentives occurred after public funds were lost. In Utah, there is zero risk for the taxpayer. The message to relocating companies that want up-front funding is "don't do it." No capital investment incentives are offered. The more capital investment a company offers, the larger the incentive. Incentive agreements that specify performance milestones are required.

A job created must be retained for one year before an incentive is granted and maintained for five to 10 years. Grants are awarded for creation of high-paying jobs that must pay at least 125 percent of urban county average wage or 100 percent of rural county average wage. Any incentive given to relocating or expanding companies is based on all types of tax revenue. All incentive programs are offered from the same office. In this way, duplicate or overlapping programs are eliminated. Clawbacks are required, but vary with the incentive and from project to project.

Delaware: All incentives are linked to performance. Job creation incentives are not considered unless sustainable wages are paid.

Best-practice states have:
- A statewide plan with a "champion,"
- Incentive agreements,
- Incentives linked to performance,
- Minimum wage standards for job creation,
- Job retention requirements, and
- Incentive clawbacks for non-performance.

In addition to Delaware, Texas, Illinois, Minnesota and at least 20 other states include clawback or other recapture provisions as part of incentive contracts, as well as dozens of cities.
Source: U.S. Department of Commerce Economic Development Administration (USEDA)

Minnesota bars companies subjected to clawbacks from receiving any incentives for five years or until the incentive is repaid.
Source: U.S. Department of Commerce Economic Development Administration (USEDA)

Rules of effective clawbacks - Enact state legislation that
- Applies to all business subsidies at both the state and local level,
- Prorates subsidies in the event of partial non-compliance, ensuring that companies are subsidized only for what they actually deliver,

Delaware. Similar to Utah, Delaware has a statewide strategic plan championed by the governor. This state is certified by the International Economic Development Council, which requires that a statewide strategic plan be developed and that economic development performance measures dovetail with legislative performance measures. Incentives are linked to performance – companies are required to retain all jobs, including existing jobs, for from five to 10 years.

Job creation incentives must adhere to quality and wage standards and are measured directly based on personal income tax alone. Assume that a worker earning $42 thousand per year pays $1 thousand in personal income taxes. The employing company would receive $2 thousand for each job created. The company must keep the job in the state at that salary or better for five years or more. This ensures that the return on investment is what is expected.

Incentive recapture or clawback programs require legal documentation to ensure that the state is repaid. The state prefers to make performance-based loans rather than award grants. If a no-interest loan is given and agreed-upon jobs are not created, then the company must repay the loan with a new, present-value interest rate. All agencies work together to prevent companies from "double dipping." For example, if a company approaches the transportation department with a request to put roads in for a project, the economic development office is informed. If the same company approaches the economic development office for job creation funding, the answer is "no" because it is already receiving transportation funding.

Clawbacks in Economic Development. Clawbacks are contractual elements that stand between the drive for economic and community development and corporate welfare. They are used primarily in securing tax incentives, abatements, refunds, and grants and involve a penalty in addition to a repayment. According to the U.S. Department of Commerce Economic Development Administration's (USEDA) periodical, *Economic Development America*, effective implementation of clawbacks requires incentive contracts with recipients that incorporate performance measures such as (1) number of jobs created over five or 10 years, (2) annual payroll, (3) amount of capital investment over a similar time frame, (4) amount of depreciated value in a given time, (5) retaining an operation at a specific site for a period of time; (6) amount of production increase or cost decrease per unit, or (7) the requirement to bring a given technology to market. Governments with formal economic development plans are more likely to include performance measures.

- Requires complete repayment, plus interest, of a subsidy in the event that a company ceases operations or moves subsidized equipment or jobs out of state, and
- Hold companies accountable for meeting wage requirements and other commitments, in addition to investment and job creation.

Source: USEDA *Economic Development America, Clawbacks in Economic Development: Policies and Practices*, Fall 2006.

Equity investments and loans from FY07 through FY09 total about $350 million (including $50 million in federal funding).

Outstanding Investments and Loans as of December 2008
(in millions)

Program	Amount
SIC Private Equity Investment	$242.0
SBIC	$21.3
SIC Film Investment	$189.9
STO Linked Deposit	$16.0
NMFA Smart Money	$5.8
Total	**$475.0**

Source: Program Data.

Private Equity Investment program performance outcomes:
- Return on invested amount plus profit,
- Creation of permanent jobs, and
- Use of invested dollars to attract third-party investors.

Clawbacks comprising repayment and penalties insert an inherent cost of money to the private company receiving the incentives. If interest and penalties are not assessed when performance measures are not met and if the recipient is required only to repay the grant, then there is no cost to the company for the use of the incentive dollars over the years the monies were in use. Clearly defined clawbacks are not an all-or-nothing proposition, and may be executed in part or in full. To promote good practices and prevent the occurrence of clawbacks: (1) perform a return-on-investment analysis before an incentive is granted, (2) execute enforceable performance agreements when providing incentives to protect state investment, (3) be flexible – adapt to meet client needs, (4) be creative when designing performance measures, (5) don't be afraid to enforce agreements, and (6) be transparent, disclose results, and tell the story well.

EQUITY INVESTMENT AND LOANS

Economic development investments and loans are made by the State Investment Council, Small Business Investment Corporation, New Mexico Finance Authority, and State Treasurer's Office programs. Exhibit 1A provides a breakdown of program investments and loans for FY07 through FY09. Exhibit 3 shows Private Equity Investment and Small Business Investment Corporation partners.

State Investment Council (SIC) Economically Targeted Investments and Small Business Investment Corporation (SBIC). The SIC, a non-cabinet level agency reporting to the governor, oversees two economic development programs. Both the Private Equity Investment and the Film Investment programs are funded through the Severance Tax Permanent Fund (STPF).

SIC Private Equity Investment Program. The program was established in 1994 to invest in private equity funds that agree to invest in New Mexico-based companies. Table 2 summarizes program impact.

Table 2. SIC Private Equity Investment Program Impact – Inception through September 30, 2008
(dollars in millions)

Total Invested	Fund Commitments	Companies Funded	Third-Party Investment	Total Invested	Investment Multiplier
$242	28	54	$1,559	$1,802	$6.42

Source: Sun Mountain Capital, New Mexico Private Equity Program Update Report, January 2009.

As of September 30, 2008, the approximate portfolio internal rate of return was a negative 8.3 percent. Recurring costs include an annual contract for a program equity advisor (Sun Mountain Capital) and SIC administrative costs; FY09 recurring costs are projected at $350 and $50 thousand, respectively.

SBIC Investment program
- Does not make direct investments – only through partnerships
- Created local capital delivery systems (micro lenders)
- Created funds located in New Mexico
  - Pre-seed tech ventures
  - Technology incubator fund
  - Traditional business growth funds
- Partners educate businesses about finance
- Meets one on one with businesses

SBIC partners have made over 1,750 loans or investments in every state community.

If a film does not generate a profit, SIC earns nothing.

SIC Film program performance outcomes are inconsistent with EDD Film Office outcomes. SIC reports total crew, and EDD reports number of media industry worker days.

It is unclear if EDD Film Office reports SIC jobs-created data.

Small Business Investment Corporation (SBIC). The SBIC was created by state legislation in 2000 to provide equity or loan capital to small businesses in New Mexico (25 or fewer employees). Funded by the STPF, SBIC's mandate is simple. Invest debt or equity in small New Mexico businesses through cooperative agreements with financial professionals. One of SBIC's priorities is to identify and help fill the gaps in capital availability for small businesses around the state. The greatest need is for loans to small businesses, particularly in rural communities, where traditional capital is less available. Many companies have too much debt or too high an interest rate because of (1) poor credit history, (2) lack of money, or (3) other barriers to cost-effective capital.

State Treasurer's Office (STO) Linked Deposit Program. This program was authorized in 2006 and allows the State Treasurer to deposit up to $49 million in total, up to $10 million per bank at rates up to one percent below the Department of Finance and Administration Board of Finance interest rate policy, into banks in economically depressed, rural communities that have a population below 3,500.

SIC Film Investment Program. In existence since 2000, the Film Investment program makes equity investments in films produced in New Mexico. The program makes zero-percent guaranteed loans up to $15 million per project in which participation in a film project's revenue is taken in lieu of charging interest. The principal amount of the loan is guaranteed. In lieu of charging interest, SIC takes back a participation in the post-breakeven profits. Currently, up to six percent of the STPF is allocated for investment in New Mexico film productions. The projected FY09 recurring administrative cost is about $40 thousand. The program purpose is to complement other incentives aimed at developing and expanding a film and digital media industry cluster in New Mexico. As of November 30, 2008, there was $145 million in loan commitments and $141 million in outstanding principal in 12 films or TV series. An additional $30 million is in the process of closing and a payment of about $12 million was received in December 2008, leaving the remaining capacity of about $30 million.

Film program performance outcome data is provided by EDD's Film Office. Outcome data is presented in the table below. New Mexico crew or jobs created refers to production crew who work on producing a film from pre-production through wrap.

The Smart Money Loan Participation program:
- Jointly administered by NMFA and EDD
- Funded through capital outlay appropriations of $10 million in 2005 and $2 million in 2007
- To date, $5.76 million committed leveraging $15.47 million from partner banks.

No return on investment is calculated for the Smart Money Loan Participation program.

Table 3. SIC Film Program Outcomes
(dollars in millions)

Outcome	FY07	FY08	FY09	Total
Loans Made	$52.0	$30.0	$30.0	**$112.0**
Production Payroll	$15.1	$12.9	Not available	**$28.0**
Dollars Spent in New Mexico	$42.5	$44.2	Not available	**$86.6**
New Mexico Crew (1)	1,010	645	139	**1,794**

Source: Program Data.

Note: All dollar amounts are actual – no multiplier was used.

New Mexico Finance Authority (NMFA). The NMFA was created in 1992 as a governmental instrumentality to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs, and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects. The principal mission of NMFA is to assist qualified entities in financing capital equipment and infrastructure programs. NMFA oversees the Smart Money Loan Participation program and the New Markets Tax Credit program.

Smart Money Loan Participation Program. The Smart Money Loan Participation program was established under the Statewide Economic Development Finance Act to create public/private partnerships that can provide financing to projects through low-cost loans to stimulate economic development and create jobs in rural and underserved communities throughout New Mexico. Under this program, lending rates are adjusted upward based on the risk of the loan. Job creation is the primary performance metric used in determining that the project will meet economic development goals. The following table summarizes program outcomes.

Table 4. Smart Money Loan Participation Program
(in millions)

Project	Smart Money	Bank	Jobs Expected	Jobs Created to Date
PreCheck, Inc., Alamogordo - Closed July 2006	$0.85	$4.17	200	47
Western Wood Products, Raton - Closed March 2007	$1.08	$2.20	27	40
Murray Hotel, Silver City - Closed July 2008	$1.20	$2.90	47	
Plaza Hotel, Las Vegas - Scheduled to close November 2008	$1.50	$3.90	32	
Schweers Properties, Alamogordo - Scheduled to close November 2008	$1.13	$2.30	20	
Total	**$5.76**	**$15.47**	**326**	**87**

Source: Program Data.

Note: NMFA reported an estimated 309 jobs created from FY07 through FY09.

The New Markets Tax Credit is a partnership between NMFA and EDD.

Finance NM Goals: Create additional, more flexible sources of private capital for businesses in rural and underserved areas of N.M.

Finance NM Business Strategy: Good, sustainable jobs in key sectors, including aviation, clean energy, high tech, film, and rural economic development.

The Schott Solar project illustrates the fragmented nature of statewide economic development initiatives and the need for full-cost accounting that allows tracking of all expenses for specific programs. Unless economic development policies are revised, the statewide return on investment and the actual public cost for each job created cannot be known.

Selected capital projects totaled about $80.7 million from 2004 through 2008.

The most popular item on a typical firm's wish list is cash grants – basically money with no conditions or performance measures attached.
Source: CFED, *Just Say "No": A Guide to Distinguishing Good Incentive Deals*

New Markets Tax Credit (NMTC) Program. NMFA received $110 million in federal NMTC authority in 2008 from the U.S. Department of the Treasury Community Development Financial Institutions Fund. The funds will provide a credit to investors who invest in designated poverty census tracts. Finance NM, a for-profit subsidiary, was created for the purpose of distributing funds. All tax credits must be deployed by September 2010. Finance NM will locate investors and leverage the investment with loans from partnering banks. Under this federal program, a borrower gets advantageous financing, and investors get a significant credit over a seven-year period. At the end, a maximum 50 percent of the federal loan can stay in the deal based on performance. The borrower refinances the remainder, and NMFA is able to re-lend the balance to other businesses without NMTC constraints and restrictions.

In December 2008, NMFA issued final approval to allocate $15.5 million in NMTCs, which will be combined with $6 million in NMTC authority by U.S. Bank to create a pool of $21.5 million in total NMTC financing for Schott Solar, Inc. This will be used for a portion of the building, equipment, and start-up costs associated with a new manufacturing facility located at Mesa Del Sol, in Albuquerque. The project is expected to create 235 construction jobs and 350 permanent jobs. Other project financing sources include developer financing ($8.6 million), industrial revenue bonds ($105 million) and Local Economic Development Act funds ($17 million). NMFA-disclosed project funding sources total $152.1 million, but do not include capital outlay ($7.5 million), the value of training provided, or state revenue forgone through tax increment district financing. Ultimately, incentive tax credits will likely also apply.

CAPITAL PROJECT APPROPRIATIONS

Capital project appropriations crosscut many programs, including film, business incubators, Main Street, Smart Money, general economic development projects, and individual projects. Despite the magnitude of capital project appropriations, there is no statewide capital spending plan and no requirement for regular reporting and performance outcomes. Capital project appropriations as currently structured are cash grants.

Selected capital projects were included to complete the picture of economic development incentives currently available in New Mexico. Pulling together the fragmented pieces of statewide economic development incentives offered emphasizes the need for a comprehensive overhaul of the system. Exhibit 1B provides detail for selected projects.

EDD grants to five programs totaled about $26.3 million from FY07 through FY09.

EDD's performance monitoring report is missing information to validate reported outcomes. **

EDD may use up to $2 million of JTIP funds for the film industry. Before a decision is made, the return on investment for both programs should be studied. **

Reporting number of workers trained as jobs created is misleading. The outcomes are not necessarily the same thing.

Main Street Reinvestment Statistics (FY07-FY09)
(in millions)

Category	Total
Public Investment	$85.49
Public-Private Projects	$5.38
Public Sector Grants	$8.02
Total	**$98.89**

Source: Main Street Data.

Main Street reinvestment statistics are a good example of best practices.

STATE GRANTS

Economic Development Department (EDD). EDD's mission is to facilitate the creation, retention, and expansion of jobs and increase investment through public/private partnerships to establish a stable diversified economy that will improve the quality of life for the state's citizens. State-funded direct grants are provided through various EDD programs. Exhibit 1C provides grant funding data from FY07 through FY09.

Job Training Incentive Program (JTIP). The Legislature created JTIP, formerly known as the Industrial Development Training program or "in plant training," in 1972. JTIP funds classroom and on-the-job-training for newly created jobs in expanding or relocating businesses for up to six months. The program reimburses 50 to 70 percent of employee wages and required travel expenses. Custom training at a New Mexico public educational institution may also be covered. JTIP has been funded through non-recurring appropriations from 2007 to 2009. Section 21-19-13 NMSA 1978 allows that up to $2 million of program funds may be used to reimburse various aspects of the film industry. Over the past five years, $5 million has been spent on film job training. Program grants totaled $22 million from FY07 through FY09.

For purposes of this analysis, JTIP staff reported jobs created from FY07 through the first quarter of FY09 as 4,756, yet the actual performance measure is "Number of workers trained."

Main Street Program. The Main Street program is a certified "State Coordinating Program" of the National Trust Main Street Center (NTMSC). The program goes through a biennial accreditation process with a three-day, on-site visit by NTMSC officers. Minimal funding and staffing are determined by NTMSC, based on the number of local affiliated projects with the program. This program and its participating local programs use the Main Street *Four Point Approach*™ of organization, design, promotion, and economic positioning. Most local Main Street organizations are non-profit corporations created specifically to address downtown revitalization and implement the Four Points. This program received about $2.5 million from FY07 through FY09.

Excellent statistics are kept by program staff. Reinvestment statistics are tracked that show, among other things, dollars of public investment, dollars invested in public/private projects, and dollars of public sector grants. From FY07 through FY09 (YTD), about $99 million was reinvested. Public sector improvements to publicly owned

From FY07 to FY09 (first quarter), Main Street served 77 communities including veteran and start-up, satellite, and special projects, and arts and cultural districts.

Business incubators partner with SBIC and SBDCs.

According to a 1997 U.S. Department of Commerce study, *Impact of Incubator Investments*:
- The estimated public subsidy cost per job created was $1,109, and
- The return on public investment in terms of tax revenues was $4.96 for every $1 of estimated public operating subsidies.

Note: The study will be updated in 2009.

The SFBI three-year average cost per job created was $1,021.

The Clovis/Curry County incubator was certified in March 2008 and received $15 thousand in state funding from FY07 through FY09. Yet performance information reported covered four years and produced 320 jobs. Without additional information, it appears that the cost per job created is $47.

This is a good example of the need for complete public funding information from all programs; otherwise, cost per job created cannot be computed.

infrastructure and buildings typically include streetscape improvements and city building rehabilitations. Building projects include public art and pedestrian amenities. Grants come from local, regional, and state governments, as well as the federal government. Capital outlay for public projects is also included.

Business Incubators. In 2005, the Legislature created the business incubator certification program to assist communities in getting new incubators started and to ensure that all certified business incubators are following the National Business Incubator Association's (NBIA) best practices. A business incubator's main goal is to produce successful firms that will leave the program financially viable and freestanding. The following table shows certified incubators and other information.

Table 5. Certified Business Incubators

Incubator	Certification Date	Time Frame for New Jobs Reported	New Jobs
Clovis/Curry County	March 2008	Four years	320
San Juan College	Sept 2006	Nine years	378
Santa Fe (SFBI)	Feb 2006	Ten years	600
South Valley	August 2005	2008 Only	74
WESST (1)	Dec 2005		
Total New Jobs			**1,372**

Source: Program Data.
(1) WESST Corp. is in the process of moving into the new facility and interviewing potential tenants.

Two components set an incubator apart from the typical assistance provided by a Small Business Development Center: the facility and the graduation process. The facility provides a real business location (as opposed to a home office or garage), with mentoring, training, administrative services, equipment, and financial oversight. On average, a new business spends two to four years in the incubator before it is fully sustainable in the marketplace and ready to graduate.

Business incubator program funding provided by EDD totaled $714.5 thousand from FY07 through FY09, a combination of capital outlay, special appropriation, and recurring special appropriation through EDD's budget. With one exception (the Santa Fe Business Incubator), EDD did not provide other significant funding data, including other public investment (direct funding and in-kind contributions). Performance information was not adequate because it spanned up to 10 years and is not comparable without a year-to-year breakdown and full funding information broken down in the same way. The Santa Fe Business Incubator directly provided full public funding information.

The Co-Op Advertising program assisted or will assist 164 communities from FY07 through FY09.

Summary of EDD-Managed Film Capital Project Appropriations as of June 30, 2008
(in millions)

Capital Outlay	$26.70
Expended	$10.40
Approved Projects	$9.90
Balance	**$6.40**

Source: LFC Files.

Film program incentives include:

- A 25 percent tax rebate on all direct production expenses,
- Zero-interest film investment loans (up to $15 million per project), and
- Subsidized wages (offered through JTIP).

The two studies contain large differences in direct income per worker. The AHC and EY studies reported annual income per worker of $34,902 and $91, 396, respectively.

The EY study included one-time-only capital expenditures, which should not be counted in an analysis of the annual return on investment.

When determining the state's return on investment, only state-level tax revenues should be considered. The EY study included both state and local taxes.

Cooperative Advertising Program. The Cooperative (Co-Op) Advertising program received about $1.1 million from FY07 through FY09. The program provides matching funds to nonprofit economic development organizations as well as local and tribal governments in New Mexico. Funding recipients are reimbursed 50 percent of the cost for direct advertising including print, broadcast, billboard, and online advertising; printing and distribution of promotional brochures; website development; and trade show participation.

Film Program. The Film Office did not respond to an information request for a full disclosure of public funding, as well as performance outcomes and related methodology. The Film Office also declined to update the outstanding balance remaining from capital project appropriations totaling $26.7 million (sidebar). These funds are managed by EDD Film Office. In addition, $5 million of JTIP funds have been expended for on-the-job film training.

Performance outcomes include the number of media industry worker days, the economic impact of media industry productions in New Mexico, and the number of projects principally photographed in the state. The economic impact is calculated from company spending using a multiplier of three.

The state sponsored two studies on the New Mexico film industry. The first study, *The Film Industry in New Mexico and the Provision of Tax Incentives* (August 2008), was prepared by NMSU's Arrowhead Center (AHC) for the LFC. The second study, *Economic and Fiscal Impacts of the New Mexico Film Production Tax Credit* (January 2009), was prepared by Ernst and Young (EY) for the Film Office and SIC. The differences in the two studies are significant, with AHC finding a return of 14.4 cents for each dollar of state expenditures on the film production tax rebate, and EY finding a return of $1.50 for each $1 of state tax credits. The EY study included several categories not included by the AHC study: film-related tourism, one-time capital expenditures, property taxes, and expenditures that are not subject to New Mexico taxation (non-qualified spending). In addition, the reports were based on different time frames (AHC – FY08, EY – CY07), and EY included local tax revenues.

Fiscal impact calculations differ substantially in the two reports. The AHC study fiscal impacts were computed using recent percentages of taxes paid per dollar of income, a method used by several impact studies and by many analysts. All assumptions regarding fiscal impacts are clearly stated, and the fiscal impact estimates can be easily replicated. The fiscal impact assumptions stated in the EY report appear insufficient to reproduce the stated results. It is not clear what EY did to obtain the fiscal impacts.

Neither study provided information about how many New Mexico residents are part of production crew used.

Labor Income as a Percent of Direct Film Expenditures

Arizona	20.4%
Florida	29.0%
Louisiana	11.8%
New York City	38.5%
New Mexico-AHC	20.3%
New Mexico-EY	80.3%

Source: Excerpt from Exhibit 5.

No reporting is statutorily required for the film and investment tax credits. From FY02 to FY07, these two credits comprised 61 percent of total incentive tax credit utilization.

TRD is not capable of reporting on tax deductions in an itemized way, according to program staff.

Additional costs to analyze tax credit incentive effectiveness range from an estimated $600 to $750 thousand.

Source: TRD and EDD, *Report on Manufacturing Incentives in New Mexico*, November 2008.

Exhibit 4 compares the two studies and summarizes key differences. When key differences in fiscal impact are removed, tax collection per dollar of tax expenditure in the EY study drops from $1.50 to 25 cents. Exhibit 5 compares the two New Mexico studies with other state and city studies. The AHC study appears to be more in line with other film studies conducted.

TAX CREDITS

Taxation and Revenue Department (TRD). In response to 2008 House Memorial 37, TRD and EDD prepared the *Report on Manufacturing Incentives in New Mexico* (November 2008). The purpose of the report is to examine the effectiveness of incentives to attract manufacturing operations to the state and to retain them, in consultation with representatives of current manufacturing operations, and to make recommendations for new legislation. The report describes current incentive tax credits, other tax incentives, and non-tax incentives for manufacturers (such as JTIP, capital outlay, and SIC programs). It summarizes both manufacturing and non-manufacturing incentive tax credit utilization. Between both, $110.1 million was claimed from FY02 to FY07. Exhibit 1D shows incentive tax credit utilization, including the FY08 film production tax credit of $46 million.

The report also addressed available effective indicators for current manufacturer incentives. At this time, the New Mexico Industrial Development Executives' Association surveys its membership of community leaders, government officials, and economic development professionals prior to setting its legislative agenda each year. JTIP and the most prominently used tax incentives like the rural job credit, the high wage jobs credit, and the investment credit are always a high priority. EDD continuously receives feedback concerning incentives from companies. However, current indicators do not provide a quantitative analysis of incentive effectiveness. Quantitative incentive analyses require data and methodological tools and a commitment of resources not currently available to either EDD or TRD.

EDD is not proposing any new tax incentives for the 2009 session. A number of new tax credits were passed in 2006, as well as extensions of existing tax credits. However, some changes and existing credit extensions are planned. They include: extend the manufacturer's investment tax credit, as well as the research and development small business tax credit; amend the film production tax credit to ensure that out-of-state actors are current on New Mexico state taxes, that production company confidentiality is protected and to allow the film production tax credit to be assignable; and making JTIP technical changes.

Small Business Assistance Program Results – CY06 and CY07

Total companies assisted	161
Companies responding to survey	119
Jobs created	52
Jobs retained	67
Avg. salary-jobs created	$28,833 - $35,143
Avg. salary-jobs retained	$50,915 - $67,278
Weighted salary	$42,655 - $49,180

Source: Program Data.
Note: 2006 results are based on Sandia National Laboratory only.

The Small Business Assistance program cost per job created is about $26 thousand.

Other Support Leveraged FY07- FY09
(in millions)

Program	State Funds	Other Funds
SBDC Network	$14.4	$2.0
Mfg. Extension Partnership	$0.9	$3.9
Rural Dev. Response Council	$0.2	$0.6
Total	**$15.5**	**$6.4**

Source: Program Data

In January 2009, the SBDC network was awarded a $400 thousand Department of Defense grant subject to a cash state match. The grant is recurring based on performance.

Very few incentive tax credits require reporting of associated economic impacts. EDD, TRD, and the Workforce Solutions Department must annually evaluate rural job tax credit effectiveness and report to the Legislature. In 2005, the interim Stabilization and Tax Policy Committee reviewed investment credit effectiveness in meeting economic development and tax policy objectives. The laboratory partnership with small business tax credit requires more extensive reporting. TRD reports annually on fiscal and economic impacts of the technology jobs tax credit. EDD reports annually on the cost of the high wage jobs tax credit and impact on company recruitment and job creation. Finally, the Department of Environment reports annually on the advanced energy tax credit.

New Mexico Small Business Assistance Program. This program is a joint effort between Los Alamos and Sandia National Laboratories. It is funded by the Laboratory Partnership with Small Business Tax Credit Act (Section 7-9E-1 through -11 NMSA 1978). Small business assistance is defined as assistance rendered by a national laboratory. Assistance is provided in the form of researcher hours valued up to $20,000 for businesses located in rural counties and $10,000 for businesses located in Bernalillo County. Tax credits taken by an individual lab are capped at $2.4 million per calendar year.

In 2007, Los Alamos National Laboratory joined Sandia National Laboratory in program participation. According to TRD, tax credits claimed for CY06 and CY07 totaled $3.14 million. The Act requires a joint annual report that summarizes Small Business Assistance program activities and results.

DIRECT APPROPRIATIONS AND FLOW-THROUGH FUNDING

This category includes the Small Business Development Center network and the EDD Film Office (direct) and three EDD flow-through programs. Funding for FY07 through FY10 totaled about $32.3 million. Funding details are shown in Exhibit 1E. Programs can use state funds to leverage additional money from federal and private grant sources. State appropriations and flow-through funding for three programs were used to leverage about 42 percent additional money to enhance program outcomes. EDD flow-through programs report performance results through EDD.

Small Business Development Centers. The SBDC network provides direct assistance, entrepreneurial education, and resource links to potential and existing small businesses to strengthen New Mexico's economy. The federally legislated SBDC program is administered by the US Small Business Administration (SBA). The SBDC receives annual formula-based (population) funding from the SBA. The majority of SBDC funding comes from the General Appropriation Act through the Higher Education Department. The program's state funding is currently included in the Santa Fe Community College research and public service category as a single line item.

This program excels in reporting both funding received and performance outcomes. In addition to reporting jobs created/retained, many other performance metrics and activities are tracked. The following table illustrates a few.

Table 6. Additional SBDC Performance Outcomes
(dollars in millions)

Year	Capital Formation		Businesses	
	Equity	Loans	Started	Expanded
2007	$1.0	$4.5	13	0
2008	$11.4	$21.8	194	15
2009	$3.9	$9.1	61	5
Total	**$16.3**	**$35.3**	**268**	**20**

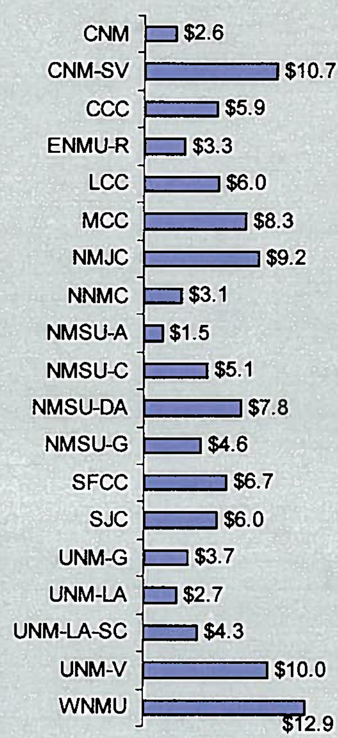
Source: Program Data.

In January 2009, preliminary statewide results of an independent customer service survey were released. The results revealed that, of clients responding, 92 percent ranked counselor competency as good to excellent and 90 percent considered the usefulness of business counseling as good to excellent.

New Mexico Economic Development Corporation (NM Partnership). This public-private nonprofit organization generates economic growth by attracting businesses to New Mexico. The NM Partnership provides a one-stop shop to deal with all issues associated with the site selection process including identification of suitable real estate sites and facilities; labor and demographic information; costs of doing business; information about tax rates, sources of project funding, and the state's aggressive incentive packages; project-specific research findings; and access to federal, state, and local contacts.

The NM Partnership is included in EDD's base budget (recurring). Targeted industries include aviation/aerospace, alternative energy, media, manufacturing (all industries), back office, and food processing. Many performance outcomes are tracked. The number of jobs created is part of joint powers agreement negotiations with EDD. Of the total jobs the NM Partnership is charged with creating, 60 percent must be urban, and 40 percent must be rural. Twenty-nine percent of jobs created from FY07 through FY09 were rural, 11 percent short of target.

State SBDC Cost per Job Created or Saved in FY08
(in thousands)



Source: Program Data.

NM Partnership Performance FY07 – FY09

Outcome	Total
Leads generated	1,016
Qualified prospects	264
Prospect site visits	100
Locates	20
Total jobs created	7,748
Rural jobs created	2,256
Percent rural jobs created	29%

Source: Program Data.

MEP Performance Results FY06 – FY08
(in millions)

Measure	Total
Jobs created/retained	1,478
New/retained sales	$106.9
Est. state gross receipts tax	$7.0
Company cost savings	$29.0
Company investments	$52.0

Source: Program Data.

Communities assisted by RDRC from 2007 to 2009 include:

- Anthony
- Clayton / Union County
- Cuba
- Eunice
- Ft. Sumner
- Hatch
- Logan
- Lordsburg
- Magdalena
- Raton
- Reserve
- Santa Clara
- Santa Rosa
- Tucumcari

With RDRC financial and technical support:

- **Clayton** organized and developed an industrial marketing plan for their livestock industry, underwent a housing assessment and developed strategies for new housing and critical community services, has a new detention center and was awarded a $1.2 million grant for a travel center.

- **Ft. Sumner** developed a working marketing and operational strategy for the airport industrial park, developed a website, and received an infrastructure grant.

To get a state's economic development fiscal "house" in order to invest in what really matters:

New Mexico Manufacturing Extension Partnership (MEP). This nonprofit group provides New Mexico manufacturers with technical expertise in a number of areas. The program's strategic plan is aligned with national direction (manufacturing, growth, technology, energy, and environment), while supporting the needs of local state businesses. MEP works with New Mexico companies to ensure that they are using best manufacturing practices so they are globally competitive and provides training and certifications in lean manufacturing to individual employees so the workforce is also globally competitive. The services provided allow companies to create additional capacity, efficiency, cost savings, and focused investment resulting in company and employment growth.

This program has received recurring state funding since FY06. State funding helps MEP partially satisfy the U.S. Department of Commerce National Institute of Standards and Technology requirement for state matching funds. Data for the performance measures is obtained through a federally sponsored independent survey.

Rural Development Response Council (RDRC). This program targets communities under 15,000 in population, leverages large federal grants to help communities help themselves, and meets rural economic needs no other organization is fully addressing. RDRC connects economic development entities with funding sources and technical assistance to create successful economic projects by providing feasibility studies, gap and needs analysis, technical studies, strategic planning, marketing plans, infrastructure and housing analysis, operating budgets, financial partners, and connection with similar projects.

Flow-through funding through EDD is non-recurring. RDRC received $230 thousand in FY07 and FY08. No funding was received in FY09. According to program staff, RDRC depends on the Legislature for unrestricted money to pay administrative expenses because federal and private grants are primarily restricted for specific purposes. Administrative expenses amount to about $150 thousand annually. According to program staff, without state assistance "the NMRDRC cannot continue." Performance outcomes are generally in line with EDD's strategic plan and measures; no outcome data was provided.

CONCLUSION

Economic progress is achieved where everyone matters and development health is judged not just by profits and patents, but by wages, benefits, and quality of life. In light of best practices and New

Mexico's current economic development practice – no statewide plan or unified budget, fragmented and duplicative programs, inconsistent and fragmented data collection and accounting, lack of consistent statewide performance outcomes for programs and projects, and, in most cases, low-level performance measures - a new approach should be considered. Current best-practice programs, such as the Small Business Investment Corporation, Main Street, Santa Fe Business Incubator, and the Small Business Development Center network, should be reviewed, as well as other states' best practices. In addition, a properly developed statewide economic development plan would (1) provide a potential structure for identifying crosscutting activities and provide additional information about existing program coordination, effectiveness, and implications for beneficiaries of changing current programs; and (2) allow pooling of resources across the full economic development spectrum.

According to CFED's report, *Taking Stock of Economic Development: A Legislative Oversight Guide*, prepared for North Carolina, the Legislature's job is not only to propose and enact legislation for creating new economic development, but to monitor the state's economic development tool kit and decide if it is working or not and, if required, how to fix it. This means state legislators should: (1) invest for the long haul; (2) raise the rate of return of the state's overall development portfolio and its specific programs; (3) move from compliance accountability to performance accountability; (4) be a collaborator, working with the administration and entities in getting results; (5) view programs as experiments - not final, once-and-for-all solutions; and (6) embrace long-term continuous improvement.

Consider adopting the 12-step program (sidebar) to maximize economic development investment and "for getting over any bad subsidy addictions." At a minimum, the state should:

- Prepare a statewide economic development plan that includes a variety of high-level performance measures,
- Require incentive agreements,
- Link incentives to performance,
- Establish minimum wage standards for job creation and retention requirements, and
- Require incentive recapture (clawbacks) for non performance.

SF/svb

(1) Determine a unified development budget that includes all agency resources as well as all tax expenditure resources devoted to economic development.

(2) Use surveys to solicit priorities for development from community members.

(3) Determine a price for each priority outcome.

(4) Develop strategy maps to identify the most promising ways to achieve the priority outcomes.

(5) Determine benchmarks for each priority. Set goals and make sure data is collected.

(6) Solicit requests for results (bids) for achieving the priority outcomes (bidders can be any reputable public, private, or nonprofit entity).

(7) Negotiate terms (especially outcomes expected) with winners.

(8) Eliminate items from the budget that go beyond lump sum allocation of spending and tax incentives.

(9) Devise full-cost accounting that allows tracking of all expenses for specific programs/strategies.

(10) Review progress against targets.

(11) Share data and use it to reform or terminate efforts.

(12) Reorganize/relocate strategy/ program "home" if required.

Source: David Osborne, *The Price of Government.*

Exhibit 1. Economic Development Funding by Category

Exhibit 1A. Equity Investments and Loans - FY07 through FY09

(in millions)

Agency/Program	FY07	FY08	FY09 (1)	Total
State Investment Council Economically Targeted Investments				
- Private Equity Investment Program	$38.20	$52.23	$43.40	$133.83
- Film Investment Program	$52.04	$30.04	$15.04	$97.12
Subtotal - State Investment Council	**$90.24**	**$82.27**	**$58.44**	**$230.95**
Small Business Investment Corporation	**$12.42**	**$20.48**	**$28.45**	**$61.35**
New Mexico Finance Authority				
- Smart Money Loan Participation Program	$2.00	$3.00	$2.80	$7.80
- New Markets Tax Credit Program (federal)			$50.00	$50.00
Subtotal - New Mexico Finance Authority	**$2.00**	**$3.00**	**$52.80**	**$57.80**
Total	**$104.66**	**$105.75**	**$139.69**	**$350.10**

Source: Agency and Program Data.
(1) To date or projected.

Exhibit 1B. Selected Capital Project Appropriations Greater than $1 Million

(in millions)

Economic Development Project	2004	2005	2006	2007	2008	Total
Media Fund (EDD Film Program)	$10.00	$2.00	$4.00	$5.70	$5.00	$26.70
Small Business Incubator Program			$2.22	$1.24		$3.46
Main Street Program		$1.00	$2.00	$1.50	$1.00	$5.50
General Economic Development Projects				$1.00	$7.00	$8.00
Individual Economic Development Projects				$3.50	$21.50	$25.00
Smart Money Loan Participation Program		$10.00		$2.00		$12.00
Total	**$10.00**	**$13.00**	**$8.22**	**$14.94**	**$34.50**	**$80.66**

Source: LFC Files.

Exhibit 1C. State Grants

(in millions)

Agency/Program	FY07	FY08	FY09	Total
Economic Development Department				
- Job Incentive Training Program	$7.00	$8.00	$7.00	$22.00
- Main Street Program	$0.82	$0.83	$0.83	$2.48
- Business Incubator Program	$0.50	$0.11	$0.10	$0.71
- Cooperative Advertising Program	$0.20	$0.43	$0.43	$1.06
Total	**$8.52**	**$9.37**	**$8.36**	**$26.25**

Source: Program Data.

Exhibit 1D. Incentive Tax Credit Utilization - FY02-FY08 (1)

(in millions)

Type of Credit	FY02	FY03	FY04	FY05	FY06	FY07	FY08	Total
Corporate Income Tax								
Film	$0.81	$1.22	$1.74	$2.10	$10.81	$17.65	$46.00	**$80.33**
Renewable Energy					$8.25			**$8.25**
Technology Jobs					$0.04			**$0.04**
Personal Income Tax								
Cultural Property Preservation	$0.23	$0.33	$0.20	$0.21	$0.26	$0.17		**$1.40**
Business Facility Rehabilitation			$0.01					**$0.01**
Land Conservation			$0.38	$0.25	$0.61	$0.11		**$1.35**
Affordable Housing					$0.03	$0.05		**$0.08**
Solar Market Development					$0.34	$0.53		**$0.87**
Technology Jobs		$0.02	$0.05	$0.04	$0.06	$0.05		**$0.22**
Rural Jobs						$0.04		**$0.04**
Welfare-to-Work	$0.07	$0.10	$0.01			$0.01		**$0.19**
Job Mentorship		$0.01	$0.01	$0.01	$0.02	$0.01		**$0.06**
Combined Reporting System								
Laboratory Ptnrshp. Sm Bus	$1.76	$0.76	$1.90	$1.47	$1.45	$1.69		**$9.03**
R&D Small Business						$0.30		**$0.30**
Capital Equipment			$0.02	$0.32				**$0.34**
High-Wage Jobs					$0.67	$1.33		**$2.00**
Investment	$3.67	$0.72	$2.15	$5.04	$14.79	$6.10		**$32.47**
Rural Jobs	$0.01	$0.18	$0.34	$0.18	$0.19	$0.08		**$0.98**
Technology Jobs	$0.69	$0.48	$3.21	$4.38	$4.09	$5.31		**$18.16**
Total, All Credits	**$7.24**	**$3.82**	**$10.02**	**$14.00**	**$41.61**	**$33.43**	**$46.00**	**$156.12**

Source: EDD and TRD *Report on Manufacturing Incentives in New Mexico*, November 2008. Corporate income tax credits are only available through 2006.
(1) Film production rebate amounts from the EDD and TRD report were updated through FY08 as per LFC files and the report published by NMSU Arrowhead Center, *The Film Industry in New Mexico and the Provision of Tax Incentives.*

Exhibit 1E. Direct Appropriations and Flow-Through Funding - FY07 through FY10 (1)

(in millions)

Agency/Program	FY07	FY08	FY09	FY10	Total
Small Business Development Centers	$4.48	$4.72	$5.21	$4.81	$19.22
EDD Film Office	$0.96	$1.41	$1.58	$1.76	$5.71
Economic Development Flow-Through Funding					
- Economic Development Corporation	$1.41	$1.46	$1.42	$1.40	$5.69
- Manufacturing Extension Partnership	$0.20	$0.44	$0.25	$0.32	$1.21
- Rural Development Response Council	$0.10	$0.13		$0.20	$0.43
Total	**$7.15**	**$8.16**	**$8.46**	**$8.49**	**$32.26**

Source: Program Data.
(1) FY10 funding is projected.

Exhibit 2A. Comparative States' Rankings

Study	Rank									
	AZ	CO	DE	MS	MT	NV	NM	TX	UT	WA
2007 Development Report Card										
Performance - Overall State Ranking	C	B	A	F	C	C	D	F	B	B
- Performance Trend Indicators										
Change in unemployment rate (2001-2005)	14	43	35	50	7	3	28	27	12	6
Change in avg. annual pay (2000-2004)	30	48	5	25	16	13	19	42	44	50
Change in poverty rate (btw 99-00 and 03-04)	36	33	8	46	10	25	7	31	36	43
Change in uninsured low-income children (btw 98-00 and 02-04) - *Percent of uninsured children at or below 200 percent of the poverty line*	14	44	41	15	16	40	5	18	39	23
Change in homeownership rate (2001-2005)	10	14	30	5	17	38	27	19	21	25
Change in toxic release inventory (1998-2002) - *Total toxic release, pounds per capita*	3	38	12	35	2	5	1	33	4	16
Average Performance Trend Indicator							15			
Business Vitality - Overall State Ranking	C	A	A	C	D	B	C	A	B	D
- Business Vitality Trend Indicators										
Five-year change in new companies (2000-2005) - *Companies applying for new employer ID numbers, per 1,000 workers*	8	32	44	39	9	29	1	33	24	49
Change in business closings - *Rate of firm terminations*	49	48	37	13	34	1	8	16	29	15
Average Business Vitality Trend Indicator							5			
Development Capacity - Overall State Ranking	D	A	A	F	C	D	D	D	A	A
- Development Capacity Trend Indicators										
Change in venture capital investments (2000-2005) - *Venture capital investment dollars, per worker*	26	47	28	8	18	2	1	39	37	44
Change in income from dividends, interest, and rent (1999-2004) - *Annual state personal income, per capita*	29	8	27	34	6	33	45	26	19	2
Change in high school attainment (1998-2003) - *Percent of heads of household with at least 12 years of education*	41	47	44	16	25	42	48	49	40	46
Change in math proficiency (1996-2004) - *Percent of fourth grade students proficient in math*	31	15	10	35	22	32	42	24	27	7
Change in health professional shortage areas (2002-2006) - *State population without primary care, per 1,000 population*	30	18	23	49	43	25	48	37	26	1
Change in private research and development (1999-2003) - *Dollars of private R&D spending, per worker*	48	33	37	2	7	38	49	34	44	22
Change in energy costs (1999-2005) - *Average cost of electricity, cents per kilowatt hour*	9	43	36	45	49	50	23	48	37	44
Average Development Capacity Trend Indicator							37			
***Eighth Annual State Competitiveness Report* (2008) - Overall State Ranking**	**22**	**4**	**19**	**50**	**10**	**15**	**34**	**23**	**2**	**6**
- Government and Fiscal Policy	8	30	24	10	32	2	25	21	7	22
- Security	36	1	38	42	6	37	46	39	27	7
- Infrastructure	27	9	33	44	2	1	22	42	11	39
- Human Resources	32	20	25	50	22	41	38	44	7	16

Exhibit 2A. Comparative States' Rankings

Study	Rank									
	AZ	CO	DE	MS	MT	NV	NM	TX	UT	WA
- Technology	32	4	14	48	29	50	15	30	12	8
- Business Incubation	12	6	1	35	19	8	27	13	2	31
- Openness	16	34	14	48	50	11	40	3	22	2
- Environmental Policy	39	9	50	22	4	25	21	23	36	8
***The 2008 State New Economy Index* - Overall State Ranking**	**20**	**10**	**4**	**50**	**40**	**25**	**29**	**18**	**12**	**2**
Knowledge Jobs	**27**	**11**	**6**	**50**	**41**	**46**	**35**	**32**	**16**	**7**
- IT Professionals	20	9	2	49	47	43	38	12	14	6
- Managerial, Professional, Technical Jobs	19	12	5	48	44	50	28	18	22	15
- Workforce Education	30	3	24	49	16	43	32	41	12	8
- Immigration of Knowledge Workers	50	36	11	21	2	48	47	46	35	13
- Migration of U.S. Knowledge Workers	28	10	23	48	20	45	25	41	22	13
- Manufacturing Value-Added	7	37	14	46	50	5	32	9	33	1
- High-Wage Traded Services	20	16	1	43	47	42	45	28	11	32
Globalization	**23**	**38**	**1**	**49**	**48**	**12**	**44**	**2**	**32**	**3**
- Export Focus of Manufacturing and Services	7	38	3	46	28	4	23	1	21	2
- Foreign Direct Investment	38	29	3	44	50	34	48	25	35	32
Economic Dynamism	**20**	**3**	**35**	**37**	**17**	**12**	**39**	**21**	**1**	**18**
- "Gazelle Jobs"	33	22	6	43	46	13	38	16	14	4
- Job Churning	11	5	23	27	7	9	13	38	3	39
- Fastest-Growing Firms	12	11	28	41	40	16	46	8	3	9
- IPOs	28	4	41	35	41	3	41	5	6	31
- Entrepreneurial Activity	23	17	49	4	1	46	28	37	27	40
- Inventor Patents	15	10	23	49	18	8	26	28	1	11
The Digital Economy	**16**	**18**	**6**	**50**	**38**	**2**	**46**	**20**	**12**	**7**
- Online Population	29	6	24	49	35	20	40	36	2	3
- Internet Domain Names	3	14	9	49	39	1	25	10	4	5
- Technology in Schools	40	35	47	48	6	44	9	21	50	24
- E-Government	15	32	6	38	31	35	50	11	7	18
- Online agriculture	33	17	27	49	11	34	46	32	12	1
- Broadband Telecommunications	22	19	3	50	47	6	42	18	23	13
- Health IT	8	24	4	48	45	3	36	29	33	10
Innovation Capacity	**22**	**7**	**6**	**46**	**33**	**41**	**4**	**24**	**20**	**2**
- High-Tech Jobs	19	6	12	49	46	36	2	20	11	10
- Scientists and Engineers	34	10	4	42	22	50	3	29	17	7
- Patents	12	4	5	49	21	20	19	15	16	2
- Industry Investment in R&D	18	10	1	47	43	37	25	16	30	5
- Non-Industry Investment in R&D	27	12	49	18	9	50	1	41	20	10
- Alternative Energy Use	16	49	46	17	10	47	36	33	40	1
- Venture Capital	19	4	27	33	26	39	8	9	6	3

Source: Corporation for Enterprise Development *Development Report Card for the States;* Beacon Hill Institute *Eighth Annual State Competitiveness Report* (2008); Information Technology and Innovation Foundation and Kauffman Foundation *The 2008 State New Economy Index*

Exhibit 2B. Economic Development Assessment Reports - Legend

Legend:	
Eighth Annual State Competitiveness Report (2008)	
Subindex	**Description and Indicators**
Government and fiscal policies	Businesses are more likely to be attracted to areas with moderate tax rates and clear evidence of financial discipline, as evidenced by high state and municipal bond ratings and budgetary balance. Indicators include: (1)state and local taxes per capita/income per capita; (2) workers' compensation premium rates; (3) bond rating; (4) budget surplus as percentage of gross state product; (5) average benefit per first payment for unemployed; and (6) full-time-equivalent state and local government employees per 100 residents.
Security	A state will be more atractive to business if public officials are trusted and if crime is low. Indicators include: (1) crime index per 100,000 inhabitants; (2) percent change in crimes, 2005-2006; (3) murders per 100,000 inhabitants; and (4) the Better Government Association Integrity Index (freedom of information laws; whistle-blower protection laws; campaign finance laws; gifts, trips, and honoraria laws; and conflict of interest disclosure laws). **Note: The 2008 BGA index ranked New Mexico as 48th out of 50 states.**
Infrastructure	How easy is commuting? Do most households have access to high-speed broadbank and telephone service? Is housing affordable? How expensive is energy? These elements of competitiveness are included in this subindex, which includes (1) telephone penetration (combined federal/state/local taxes as percent of price); (2) high-speed lines per capita; (3) air passengers per capita; (4) travel time to work; (5) electricity prices per million BTU; and (6) median monthly housing costs.
Human resources	A high level of labor force participation and skilled labor that is readily available and not too expensive, combined with a widespread commitment to education, training, and health care, make a state attractive for business. Indicators include: (1) percent of population without health insurance; (2) percent of population aged 25 and over that graduated from high school; (3) unemployment rate, not seasonally adjusted; (4) percent of students enrolled in degree-granting institutions per 1,000; (5) percent of adults in the labor force; (6) infant mortality rate in deaths per 1,000 live births; (7) non-federal physicians per 100,000 inhabitants; and (8) percent of students at or above proficient in math, grade four public schools.
Technology	The development and application of technology has been increasingly central to economic development. This subindex takes into account research funding, the number of patents issued, the proportion of scientists and engineers in the labor force, and the importance of high tech companies.
Business incubation	A good idea is not enough; businesses also need to be able to mobilize financing for investment, both internally and from the financial system. A higher rate of business births is a particularly clear sign of a competitive environment and is an important component of the business incubation subindex. Indicators include: (1) deposits in commercial banks and savings institutions, per capita; (2) venture capital available per capita; (3) employer firm births per 100,000 inhabitatns; (4) initial public offerings; (5) percent of labor force that is represented by unions; and (6) minimum wage.
Openness	Open economies tend to be more competitive and hence more productive. The openness subindex measures how connected the firms and people in a state are with the rest of the world. It is based on the level of exports, as well as the percent of the population born abroad, a key element.
Environmental policy	States that are faced with environmental problems or that have a heavy-handed policy of environmental regulation are likely to be less attractive to businesses as well as to their workers and managers. This effect is measured using, among other things, indicators that reflect the levels of air pollution and of toxic releases. Decent air quality is a measure that states are pursuing policies that improve the environment and attract workers and investors.
The 2008 State New Economy Index	
Category/Indicator	**Description**
Knowledge Jobs	
- IT Professionals	Employment in IT occupations in non-IT industries as a share of total jobs - Over one-third of IT jobs in non-IT industries are located in only five states.

Exhibit 2B. Economic Development Assessment Reports - Legend

- Managerial, Professional, and Technical Jobs	Managers, professionals, and technicians as a share of the total workforce - Managerial, professional, and technical jobs grew more than 50 percent faster than overall employment between 1999 and 2007.
- Workforce Education	A weighted measure of the educational attainment (advanced degrees, bachelor's degrees, associate's degrees, or some college coursework) of the workforce - In 2006, 27 percent of Americans older than 25 years of age held at least a backelor's degree, up from 24 percent in 2000 and 21 percent in 1990. **New Mexico was ranked as a top five mover, going from 47 in 2002 to 32 in 2008.**
- Immigration of Snowledge Workers	The average educational attainment of recent migrants from abroad - Immigrants far outpaced native-born Americans in business ownership, increasing from 0.37 percent in 2006 to 0.46 percent in 2007.
- Migration of U.S. Knowledge Workers	The average educational attainment of recent migrants from within the U.S. - On average, Americans move every five years.
- Manufacturing Value-Added	Manufacturing value=added per production hour worked as a percentage of the national average, adjusted by industrial sector - States with concentrated manufacturing in specialized sectors tend to have higher value-added production.
- High-Wage Traded Services	The share of employment in traded service sectors in which the average wage is above the national median for traded services - Traded services account for 18 percent of all industry employment.
Globalization	
- Export Focus of Manufacturing and Services	The value of exports per manufacturing and service worker - On average, workers employed at export-oriented manufacturing firms earn 9.1 percent more than workers at comparable non-exporting firms.
- Foreign Direct Investment	The percentage of each state's workforce employed by foreign companies - Four-fifths of states saw an increase in foreign direct investment from 2005 to 2006.
Economic Dynamism	
- "Gazelle Jobs"	Jobs in gazelle companies (firms with annual sales revenue that has grown 20 percent or more for four sstraight years) as a share of total employment - Gazelles are responsible for as much as 80 percent of the jobs created by entrepreneurs.
- Job Churning	The number of new startups and business failures, combined, as a share of the total firms in each state - In 2007, service-providing establishments represented more than 75 percent of total job creations and losses.
- Fastest-Growing Firms	The number of Deloitte Technology Fast 500 and Inc. 500 firms as a share of total firms - Between 2006 and 2007, the median number of Inc. 500 companies in the states increased by 25 percent, reflecting the fact top growing firms have found homes in a larger range of states.
- IPOs	A weighted measure of the number and value of initial public stock offerings of companies as a share of total worker earnings - The number of IPOs in 2007 was at its highest level since 2000.
- Entrepreneurial Activity	The adjusted number of entrepreneurs starting new businesses - Firms that survive the first few years create jobs and also often create innovative goods, services, and processes.
- Inventor Patents	The number of independent inventor patents per 1,000 people - In 2006, more than 14,000 inventor patents were issued.
The Digital Economy	
- Online Population	Internet users as a share of the population - The number of rural Americans with Internet in their homes has increased by 50 percent since 2000.
- Internet Domain Names	The number of Internet domain names (.com, .net, and .org) per firm - The number of '.com' domain names registered in the United States grew by more than 75 percent between 2004 and 2007.
- Technology in Schools	A weighted measure of three factors measuring computer and Internet use in schools - In 2007 there were 180,000 more instructional computers in the schools than just a year prior. **New Mexico was No. 1 as a top five mover, going from 38 in 2002 to 9 in 2008.**

Exhibit 2B. Economic Development Assessment Reports - Legend

- E-Government	A measure of the utilization of digital technologies in state governments - The number of government sites offering multiple services, such as professional license renewal and trademark registration, increased from seven in 2002 to fifty-eight in 2007, reflecting the fact numerous states have multiple government run websites.
- Online agriculture	A measure of the percentage of farmers with Internet access and using computers for business - Farms with DSL as the primary method of Internet access more than doubled from 2005 to 2007.
- Broadband Telecommunications	A weighted measure of the adoption of residential broadband services and median download speed - High-speed lines increased by 22 percent during the first half of 2007, from 82.8 million to 100.9 million lines in service.
- Health IT	Total number of prescriptions routed electronically as a percentage of total number of prescriptions eligible for electronic routing - In 2007, 35 million prescriptions were routed electronically.
Innovation Capacity	
- High-Tech Jobs	Jobs in electronics manufacturing, software and computer-related services, telecommunications, and biomedical industries as a share of total employment - Between 2005 and 2006, 60 percent more high-tech jobs were created than between 2004 and 2005. **Not only was New Mexico ranked No. 2, it was ranked No. 1 as a top five mover, going from 26 in 2002 to 2 in 2008.**
- Scientists and Engineers	Scientists and engineers as a percentage of the workforce - In 2006, the unemployment rate among scientists and engineers was nearly half the national average. **States with the highest rankings tend to be high-tech states or states with significant federal laboratory facilities. New Mexico ranked No. 3.**
- Patents	The number of patents issued to companies or individuals per 1,000 workers - Patents issued have increased from 40,000 in 1985 to 79,000 in 2007.
- Industry Investment in R&D	Industry-performed research and development as a percentage of total worker earnings - Industry spending on R&D increased by 9 percent between 2005 and 2006.
- Non-Industry Investment in R&D	Non-industrial research and development as a percentage of gross state product - In 2006, seventy-seven of the eighty-eight U.S. companies that produced award-winning innovations were beneficiaries of federal funding. **With Los Alamos and Sandia National Laboratory accounting for more than 80 percent of New Mexico's non-industry R&D, the state far exceeds any other state in non industry R&D as a share of GSP, at ten times the national average.**
- Alternative Energy Use	The change in energy consumption per capita and the change in renewable energy consumed as a percentage of total energy - The U.S. market for green technology is expected to grow to $82 billion by 2010.
- Venture Capital	Venture capital invested as a share of worker earnings - In 2007, venture capital was one-third larger than in 2005. **Although not in the top five, New Mexico ranked No. 1 as a top five mover, going from 44 in 2002 to 8 in 2008.**

Source: Beacon Hill Institute *Eighth Annual State Competitiveness Report* (2008); Information Technology and Innovation Foundation and Kauffman Foundation *The 2008 State New Economy Index*

Exhibit 3. Selected Investment Partners

Partners	Description	Industries Targeted	Business Stage Funded	Recurring or Non-Recurring
State Investment Corporation Private Equity Investment Program				
Altira Group - 2003	Invests in companies that develop and commercialize energy technologies in the areas of natural resources, clean energy, and electric power. Altira does not invest in projects for petroleum exploration and production or for power generation.	Energy	Growth or expansion stage	N
ARCH Ventue Partners - 1993 and 1996	A not-for-profit company that invests in technology companies that focus on innovations in certain areas.	Life sciences, physical sciences, and information technology	Seed and early stages	N
Blue Sage Capital - 2003	Does not specialize in any particular industry, but would consider a variety of manufacturing, distribution, and business service companies.	All	Early stage (except early-stage technology)	N
CVM Equity Fund V - 1998	Focuses on venture capital investing in the Rocky Mountain West, with a primary emphasis on Colorado.	All	Start up and early stages	N
Epic Ventures (formerly Wasatch New Mexico Fund, LLC) - 2001 and 2004	Backs companies that are positioned to become the market leaders of tomorrow - best-of-breed technologies and management teams across all sectors. Licensed as a small business investment company by the U.S. Small Business Administration.	High tech	Start up and early stages	N
Flywheel Ventures - 2004	Focuses on information technology, physical sciences, and clean technology. Targets innovations arising out of the region's research universities, R&D organizations, and national laboratories. Flywheel also manages the New Mexico Gap Fund. Initial investment amount ranges from $100 thousand to $1 million.	Information technology, physical sciences, and clean technology	Seed and early stages	N
Invernational Venture Fund (IVP) - 2000	Focuses investments on high-growth-rate business opportunities that have a global appeal and are based in primary target markets of Arizona, Hawaii, New Mexico, and Utah.	High tech	Seed and early stages	N
ITU Ventures - 2003 and 2005	Focuses on technology businesses emerging from leading universities, research institutions, and corporations.	High tech	Seed and early stages	N
Murphree Venture Partners - 1998 and 2000	Focuses on high-technology enterprises, such as Internet infrastructure and application software, life sciences, telecommunications, optical/semiconductor devices, and energy technologies.	High tech	Seed and early stages	N
New Mexico Co-Investment Partners - 2004	Fund established on behalf of the State Investment Council to invest in a diversified portfolio of direct co-investments in New Mexico.	All	All	N
NMSIC Co-Investment Fund, L.P. (Classic) - 2007	Fund established on behalf of the State Investment Council to invest in a diversified portfolio of direct co-investments in New Mexico with investment sizes below $5 million.	All	All	N
NMSIC Co-Investment Fund, L.P. (Focused) - 2007	Fund established on behalf of the State Investment Council to invest in a diversified portfolio of direct co-investments in New Mexico with investment sizes above $5 million.	All	All	N
Psilos Group Partners - 2005	Focuses on health care services, healthcare information technology, medical device, medical instrumentation, and specialty pharmaceutical.	Health care industry	Series B-stage funding or later rounds	N

Exhibit 3. Selected Investment Partners

Partners	Description	Industries Targeted	Business Stage Funded	Recurring or Non-Recurring
Red River Ventures - 2000	southwest. Currently invested in 14 businesses across a broad spectrum of industries, including business and consumer services, health care, manufacturing, and technology. The fund is fully invested.	All	Start up and growth or expansion stages	N
Tullis, Dickerson and Company - 1998 and 2001	Focuses on health care industry: biotechnology and life sciences, pharmaceuticals, health care, and medical services	Health care industry	Start up, early stage, and growth or expansion stages	N
Valley Ventures - 1998 and 2002	Invests in a broad spectrum of industries, including life sciences, semiconductors, systems, and software	All	Early and late stages	N
Verge Fund - 2004	Focuses on technology investments in New Mexico. Equity capital funding ranges from $100 thousand to $1 million.	High tech	Seed, early, and growth stages	N
Vestor Private Equity - 1998	Invests in manufacturing or service businesses.	Manufacturing or service	Growth or expansion stage	N
Village Ventures - 2006	Focus on consumer media and retail, health care, and financial services	Consumer media and retail, health care, and financial services	Seed and early stages	N
vSpring Capital - 2003	Invests in information technology and life sciences, with primary areas of focus including enterprise software, networking and communications, security software, Internet, mobile computing, drug discovery, drug delivery, diagnostics, and medical devices.	High tech, health care industry	Seed and early stages	N
Sun Mountain Capital	Serves as an equity advisor to the State Investment Council for the N.M. Private Equity Investment Program. Manages a $60 million state investment fund. Look for co-investment opportunities and do not have an industry focus. Prefer early stage or start up ventures or those in expansion. Initial investment amount ranges from $300 thousand to $10 million.	All	Start up, early, and growth or expansion stages	R
Small Business Investment Corporation - The SBIC has both a fiduciary role and a role in aiding economic development. It helped create Finance New Mexico, which produces weekly articles focused on business financial literacy. These articles are published in 30 newspapers statewide and are electronically broadcast to over 1,000 entities. Over 60 articles have been published. They can be seen on www.financenewmexico.org.				
ACCION New Mexico - Loan Partner - Micro Lender	Offers loans and support to self-employed individuals who have limited or no access to traditional business credit. Loan amounts range from $200 to $150 thousand.	Wide variety	Start up and established businesses	N
Flywheel Ventures - Equity Partner	Focuses on information technology innovations, advance materials, and physical sciences. Targets innovations arising out of the region's research universities, R&D organizations, and national laboratories. Funding ranges from $25 thousand to $3 million.	High tech	Seed, early, and growth or expansion stages	N

Exhibit 3. Selected Investment Partners

Partners	Description	Industries Targeted	Business Stage Funded	Recurring or Non-Recurring
Mesa Capital Partners - Equity Partner	Established in 2004 as an early stage private equity firm focusing on high–potential small businesses in industries and geographic areas underserved by other capital providers. Located in Santa Fe and Oklahoma City, Oklahoma. Funding range is $500 thousand and greater.	Low tech or no tech (manufacturing, distribution, etc.)	Growth or expansion stage	N
New Mexico Community Capital - Equity Partner	Formed in late 2004 by business and community leaders to provide equity capital and management resources to qualifying New Mexico businesses, particularly in rural and underinvested areas. Fund objectives are to stimulate job growth, strengthen local economies, enhance the entrepreneurial capacity of business owners, and generate attractive returns for investors in order to increase the available pool of capital for future investment. Funding ranges from initial investments of $200 to $750 thousand up to $1.4 million.	Consumer products, consumer and business services, energy and environmental businesses, food processing, light manufacturing, and tourism and artisan-focused businesses	Growth or expansion stage	N
New Mexico Growth Fund - Equity Partner	New Mexico Growth Fund 1 is managed by Mesa Ventures from its Santa Fe office. The primary fund focus is more traditional companies like manufacturing, service, retail sales, and distribution companies. There is also a focus on non-Rio Grande-located companies as part of an effort to provide equity capital to rural areas. The State Investment Council is the sole limited partner and has committed $1,500,000 of capital to the fund. New Mexico Growth Fund will make $200 to $450 thousand investments in early stage and growth capital to expand.	Manufacturing, service, retail sales, and distribution companies	Growth or expansion stage	N
The Loan Fund - Loan Partner (formerly NM Community Loan Fund) - Micro Lender	A tax-exempt organization that provides loans, training, and business consulting to entrepreneurs with disabilities, low-income individuals, Native American enterprises, rural enterprises, and women-owned businesses. Funding ranges from $5 thousand to $1 million.	All	Nonprofit, start up, and established businesses	N
Verge Fund - Equity Partner	Focuses on technology investments in New Mexico. Funding ranges from $100 thousand to $1 million.	Technology, health care	Seed, early, and growth or expansion stages	N
WESST Corp. - Loan Partner - Micro Lender	A private, non-profit economic development organization that provides business training, consulting and loans ranging from $200 to $50 thousand to entrepreneurs.	All	Idea, pre start up and planning, start up, and growth stages	N
New Mexico Gap Fund - Equity Partner	A newly formed fund managed by Flywheel Ventures that makes very small (less than $100 thousand) investements in techology-based companies.	Early stage technology	Pre seed and very early stages	N
New Mexico Mezzanine Fund - Equity Partner	A newly formed mezzanine fund (equity like) that addresses a gap in the state's capital structure. Loans range from $250 to $750 thousand in the form of debt plus warrants.	Service-type businesses that tend not to have much in hard assets required as bank collateral.	Growth or expansion stage	N

Source: SIC and SBIC Data

Exhibit 4. Key Differences between the Arrowhead Center (AHC) and Ernst and Young (EY) Film Impact Studies

Tax Collections per Dollar of Expenditure		Category	Total Tax Impact (in millions)		Notes
Ernst and Young Study	Arrowhead Center Study		Ernst and Young Study	Arrowhead Center Study	
$1.50			$70.50	$5.52	1
		Film tourism	($25.70)	$0.00	2
$0.95		Less film tourism	$44.80	$5.52	
		Capital expenditures	($12.70)	$0.00	3
$0.68		Less capital expenditures	$32.10	$5.52	
		Property taxes	($4.50)	$0.00	4
$0.59		Less property taxes	$27.60	$5.52	
		Difference in total expenditures due to time frame	($8.03)	$0.00	5
$0.42		Less time difference	$19.57	$5.52	
		Difference due to inclusion of non-qualifying expenditures	($7.72)	$0.00	6
$0.25	**$0.14**	**Tax Impact**	**$11.85**	**$5.52**	

Note 1 - The differences in the two studies are significant. The AHC study found a return of 14.4 cents for each dollar of state expenditure on the film production tax rebate. The EY study found a return of $1.50 for each $1.00 of state tax credits.

Note 2 - The EY study includes $165.9 million in direct spending from film tourism. This results in a total impact of $285.2 million including indirect and induced tourism expenditures. AHC did not include film tourism expenditures nor did it have access to a separate study produced in December 2008. Film tourism expenditures in the EY study account for 32 percent of the total impact on output and approximately 36.5 percent of the EY estimated state and local tax revenue attributed to film production.

Note 3 - The EY study included the effects of capital expenditures associated with the film study, while the AHC study did not. In the EY study, the impacts of cap ital expenditures account for 18.0 percent of the total tax revenue impact. The EY capital expenditures assumption attributes all film industry capital expenditures in the state in 2007 to the incentive program for that year.

Note 4 - AHC did not include property taxes in its calculation of fiscal impacts.

Note 5 - The reports are based on different time frames. The AHC study examined FY08 while the EY study used calendar year 2007. Because of the different time periods, the AHC study reported $38.195 million in credits and $152.78 million in qualified spending, while the EY study reported $47.1 million in credits and $197.7 million in qualified spending. This difference is not an error in either study. However, the differing time frames alone imply a 29 percent difference in estimated economic impacts.

Note 6 - The EY study included non-qualified spending of $55.2 million that was not included in the AHC study. The inclusion of non-qualified spending increased film industry expenditures in the EY study by 27.9 percent. This assumption in the EY study attributes all film expenditures in the state to the incentive program. Combined with the effects of using a different time frame, total expenditures by the film industry in the EY study were $252.8 million or $100 million higher than the $152.8 million reported in the AHC study. That is, the EY study reported direct total expenditures that were 65 percent higher than in the AHC study.

Source: Arrowhead Center, New Mexico State University, January 2009.

Exhibit 5. Film Study Comparison

	Date	Economic Impact	Output (in thousands)	Income (in thousands)	Jobs	Income/Output	Average Income
Arizona, ESI Corporation, *Analysis of the Film and Video Industry in Arizona*							
	12/04	Direct	$107,345.9	$21,885.9	612	20.4%	$35,761
		Indirect	$59,407.3	$20,856.4	665	35.1%	$31,363
		Induced	$34,698.3	$13,856.6	427	39.9%	$32,451
Total - Arizona			**$201,451.5**	**$56,598.9**	**1,704**	**28.1%**	**$33,215**
Impact							
Total - Florida	9/08		**$29,290,000.0**	**$8,500,000.0**	**207,800**	**29.0%**	**$40,905**
Louisiana							
	12/06	Direct	$569,609.7	$67,395.6	2,915	11.8%	$23,118
		Indirect	$328,023.7	$68,655.3	1,558	20.9%	$44,069
		Induced	$140,810.5	$39,687.4	8,972	28.2%	$4,423
Total - Louisiana			**$1,038,443.9**	**$175,738.2**	**13,445**	**16.9%**	**$13,071**
New York City, Cornell University Fiscal Policy Institute, *New York's Big Picture - Assessing New York's Position in Film, Television and Commercial Production*							
	7/06	Direct	$10,126,000.0	$3,896,000.0	36,372	38.5%	$107,115
		Indirect	$4,687,000.0	$1,731,000.0	31,226	36.9%	$55,435
		Induced	$5,390,000.0	$1,948,000.0	46,698	36.1%	$41,715
Total - New York City			**$20,203,000.0**	**$7,575,000.0**	**114,296**	**37.5%**	**$66,275**
New Mexico, Arrowhead Center, Office of Policy Analysis, New Mexico State University, *The Film Industry in New Mexico and the Provision of Tax Incentives*							
	8/08	Direct	$152,780.0	$31,063.0	891	20.3%	$34,879
		Indirect	$143,713.0	$35,349.0	1,083	24.6%	$32,640
		Induced	$48,383.0	$14,755.0	460	30.5%	$32,055
Total - New Mexico Arrowhead Center Study			**$344,876.0**	**$81,167.0**	**2,434**	**23.5%**	**$33,349**
New Mexico, Ernst and Young, *Economic and Fiscal Impacts of the New Mexico Film Production Tax Credit*							
Film Production Activities	9/09	Direct	$252,800.0	$202,900.0	2,220	80.3%	$91,396
		Indirect and Induced	$165,500.0	$85,000.0	1,609	51.4%	$52,828
Subtotal			$418,300.0	$287,900.0	3,829	68.8%	$75,189
Film-related Capital Expenditures		Direct	$115,100.0	$41,800.0	930	36.3%	$44,946
		Indirect and Induced	$73,300.0	$33,800.0	623	46.1%	$54,254
Subtotal			$188,400.0	$75,600.0	1,553	40.1%	$48,680
Film Toursim		Direct	$165,900.0	$69,700.0	2,839	42.0%	$24,551
		Indirect and Induced	$119,200.0	$54,300.0	989	45.6%	$54,904
Subtotal			$285,100.0	$124,000.0	3,828	43.5%	$32,393
Total - New Mexico Ernst and Young Study			$891,800.0	$487,500.0	9,210	54.7%	$52,932

Direct impacts are within the motion picture production industry.

Indirect impacts occur in industries that supply goods and services to motion picture production.

Induced impacts are created when the workers and business owners engaged in producing the direct and indirect effects spend their incomes on consumption goods and services.