



ROADMAP

TO RECOVERY

ECONOMIC RECOVERY COUNCIL | JANUARY 12, 2021

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MESSAGE FROM GOV. MICHELLE LUJAN GRISHAM



New Mexico,

We have some hard work ahead of us.

COVID-19 has taken an awful toll on our communities. We've lost far too many people, and so many others have made sacrifices in their personal and professional lives to help keep us safe.

New Mexico businesses and workers have suffered because of this disease. Family-run small businesses have closed their doors. Hard-working New Mexicans have found themselves suddenly without their livelihoods through no fault of their own.

But New Mexicans are tough. We're resilient. And we will rebuild as good or better than before if we work smart and we work together.

The pandemic has put a harsh light on some of our weaknesses, but it also has pointed to opportunities. As this report makes clear, this is not a time to retrench. There is much we can do to build a stronger, more resilient economy in all of New Mexico.

I want to thank the members of the Economic Recovery Council for the long hours and thoughtfulness they have given not just to these recommendations, but in all they have done over the past eight months. Their counsel has been invaluable.

Sincerely,

A handwritten signature in blue ink that reads "Michelle Lujan Grisham".

Governor Michelle Lujan Grisham



THE ECONOMIC RECOVERY COUNCIL

In mid-April, Gov. Michelle Lujan Grisham reached out to business and labor leaders from different industries around the state to advise her on how to safely reopen New Mexico for business and recreation. The group has worked closely with the Governor's Medical Advisory Team, state department secretaries, economists and other staff.

A message from Council Chairwoman Christina Campos:

“ *New Mexicans already have suffered greatly in the fight against COVID-19, and yet the recent setbacks make it clear we still have a long way to go to beat this disease.*

In addition to the physical and emotional pain it imposes, the pandemic is taking a toll on too many businesses and jobs.

Some of the recommendations in this report are intended to address the near-term needs of businesses struggling to keep their doors open. Others will help New Mexico prepare for the opportunities and challenges we know we will face in the post-pandemic economy.

As a council, we know there will be much more to do and that the effort to find innovative and impactful solutions will continue. ”

MEMBERS OF THE ECONOMIC RECOVERY COUNCIL

Christina Campos, Chairwoman - Guadalupe County Hospital

Brian Moore - Ranch Market

Allan Affeldt - Historic Plaza Hotel

Vince Alvarado - New Mexico Federation of Labor/
AFL-CIO

Mark Fidel - RiskSense

Liddie Martinez - Enterprise Bank & Trust

Brian O'Leary - NBC Universal

Carri Phillis - The Salt Yard; Effex Nightclub

Jason Sandel - Aztec Well Family of Companies

Sally Stahmann-Solis - Stahmann Farms

Phoebe Suina - High Water Mark

Peter Trevisani - New Mexico United

Jeremy Turner - Pattern Energy



EXECUTIVE SUMMARY



Gov. Michelle Lujan Grisham's Economic Recovery Council is pleased to present "Roadmap to Recovery." This report briefly summarizes economic recovery efforts to date and provides a set of policy recommendations intended to help New Mexico thrive in a post-pandemic economy.

The recommendations included in this report are intended to suggest crucial next steps New Mexico should take not only to recover jobs lost to the pandemic, but also to adapt to emerging trends and create new opportunities for New Mexicans.

New Mexicans already have stepped up together to meet the challenges of the COVID-19 pandemic, adapting to new realities in workplaces, education and public life in general.

By late March 2020, New Mexico and most other states had put in place "stay at home" orders, closing schools and many businesses. Experience elsewhere in the world had made it clear that strict public health measures were needed to prevent unnecessary deaths and to keep the pandemic from overwhelming the state's health care network.

At the same time, the Lujan Grisham administration immediately began addressing the economic dislocation caused by the pandemic.

Turning to scientific research and evidence, the state established gating criteria to guide its reopening of the economy in a safe, responsible manner. The Governor appointed the Economic Recovery Council,



EXECUTIVE SUMMARY

composed of business leaders from a variety of industries, to advise her on the recovery efforts.

On April 30, 2020, New Mexico released a preliminary version of its reopening plan, based largely on a risk assessment framework developed at John Hopkins. The plan called for a phased reopening, starting with the lowest-risk activities and gradually allowing higher-risk environments to resume operations. The Economic Recovery Council contributed to and endorsed the plan.

Meanwhile, the Lujan Grisham Administration and ERC convened task forces comprising business leaders from approximately 20 sectors to develop industry-specific COVID-Safe Practices (CSPs). The CSPs, laid out in the publication “All Together New Mexico,” provide a clear set of instructions for how to resume activities and have been embraced by businesses and organizations across the state.

For short-term relief, the administration marshalled federal, state and private resources to support businesses, non-profits and individuals directly affected by the pandemic. More than \$3 billion in federal loans and grants had been distributed and more than \$600 million in state loans and grants had been made available by late summer. In December, the state appropriated another \$300 million in federal CARES Act funding for business grants, enhancing unemployment benefits and other relief.

Still, COVID-19 has caused real damage to the New Mexico economy and financial distress for many New Mexicans. Through November 2020, the state had lost approximately 65,500 jobs and the unemployment rate stood at 7.5 percent. Job losses have been especially severe in leisure and hospitality and in the extraction industries.

Recovering lost jobs and reviving the New Mexico economy will be challenging in the



face of global economic conditions and new surges in infections, as we saw in July and again this fall and winter. But there are some encouraging signs.

With COVID-safe Practices in place, some industries initially hurt by pandemic-induced shutdowns are coming back. The retail sector has largely recovered the jobs it lost early in the pandemic, and New Mexico’s fast-growing film industry has begun to strategically resume work.

Looking further out, the pandemic has exposed challenges but also opportunities for New Mexico to grow and diversify its economy.

The sudden rise of remote work and the technologies that make it not only possible, but appealing, is something New Mexico must seize on. With an attractive, affordable quality of life, the state is well positioned to recruit new businesses and remote workers and to allow home-grown talent to thrive.

Disruptions caused by the pandemic have many companies moving supply chains closer to home. New Mexico’s robust transportation infrastructure along with its strategic location along the U.S.-Mexico border and its strong relationships with Mexican manufacturing are already attracting new players to the state.



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New Mexico's thoughtful, scientific-based approach to the pandemic has established it as a place where worker safety and public health are taken seriously. That reputation will be a strong selling point as the state rebuilds its tourism industry and competes for the jobs of the future.

Successfully capitalizing on those opportunities will involve hard work and change. The Economic Recovery Council is presenting the following options to help ensure New Mexico thrives in a post-pandemic world.

These recommendations should be considered only the first steps needed for the long-term health of our communities. The ERC wholly endorses ongoing efforts by the New Mexico Economic Development Department. With support from a \$1.5 million federal CARES Act grant, the Department will collaborate with the Council of Governments and other stakeholders on a statewide comprehensive economic recovery strategy. The plan will focus on nine industries that Gov. Lujan Grisham



has identified as key to New Mexico's economic future: aerospace, biosciences, cybersecurity, film & television, global trade, green and sustainable energy, intelligent manufacturing, outdoor recreation, and value-added and sustainable agriculture.

That plan will help not only in recovery, but in developing long-term resiliency and diversification.

Policy Recommendations:

Investing in Critical Infrastructure

- » Earmark 50% of Severance Tax bonding capacity in 2021 for broadband projects (estimated at \$215 million). Require Internet Service Providers operating in New Mexico to report detailed broadband coverage and pricing data to DoIT on a quarterly basis. This will encourage healthy competition to widen access and improve affordability.
- » Earmark 25% of future Severance Tax Bonding capacity for critical capital outlay expenditures to be overseen by a newly created Critical Capital Outlay Council. The Council would be appointed by the Governor and the Legislature.
- » Increase earmark of capital outlay for tribal infrastructure from 4.5% to 9% and for Colonias from 4.5% to 7%.

Economic Development Incentives

- » Infuse \$100 million into the Job Training Incentive Program (JTIP) and expand the program by making leisure and hospitality sector businesses eligible to take part. Rules for the program should be amended to allow for reimbursement of salaries for employees rehired after being laid off because of COVID-19 impacts. Salary reimbursement should be allowed for up to one year.



EXECUTIVE SUMMARY

- » Amend LEDA and increase funding by \$100 million to assist small businesses with rent and mortgage payments as they reopen and rehire employees. Also, LEDA should be amended so that larger projects can be supported through gross receipts taxes generated by those projects.
- » Maintain funding levels for the Film Tax Credit.
- » Explore establishing a Remote Worker Relocation Program. This could be piloted using philanthropic dollars, with state support potentially layered on once a proof of concept has been established.

Accelerating Recovery for the Leisure and Hospitality Sector

- » Approve a \$25M special appropriation for immediate promotion investment.
- » Implement a 2 percent statewide Tourism Tax, raising up to \$30 million annually for promotion while still keeping New Mexico rates competitive with other states.
- » Amend the Liquor Control Act allowing for takeout or delivery of alcohol with meal orders from restaurants. Businesses that deal primarily in package sales also should be allowed to deliver or use a third party to deliver.
- » Expand the Job Training Incentive Program (JTIP) to include leisure and hospitality businesses. (See above Economic Development Incentives for more information.) In addition to legislative action, this proposal would require approval from the JTIP board.



EXECUTIVE SUMMARY

Small Business Relief

- » Extend and expand the \$400M Small Business Recovery Loan Fund (SB 3) so that it is accessible to more businesses seeking long-term viability. The Legislature should consider the following to give the New Mexico Finance Authority greater flexibility in administering the program:
 - » Allow businesses to demonstrate severe economic impact in any time period since the pandemic began.
 - » Amend the business owner residency requirement to demonstration of either 51% ownership by New Mexican(s) or that at least 90% of employees are New Mexicans.
 - » Increase maximum loan amounts to \$150,000 based upon numbers of employees.
- » Extend tax penalty and interest relief granted under HB6, which includes Personal and Corporate Income Tax, Withholding Tax, Gross Receipts Tax, and Property Tax.
- » Increase share of state contracts to New Mexico businesses through procurement reform, to include: an increase in the New Mexico resident business preference, extending the resident veteran business preference and standardizing and streamlining the RFP process.
- » Restore the 6% budget cut (\$250,000) to the New Mexico Small Business Development Center (NMSBDC) Network, a result of the June Special Session. NMSBDC has provided crucial technical assistance to small businesses both before and through the pandemic. Budget cuts threaten closure of one or more of their 19 centers across the state.
- » Rent forgiveness for hard-hit business tenants of state-owned facilities.
- » Direct \$1 million to \$3 million to the New Mexico Economic Development Department's (NMEDD) COVID-19 Loan Guarantee Program.
- » Direct \$2 million to \$5 million to NMEDD's Collateral Assistance Program.

A full review of all policy recommendations is available starting on page 26.



COVID-19 PANDEMIC EMERGENCY DAMAGE ASSESSMENT



The COVID-19 pandemic has wrought severe economic hardship in New Mexico across industries, employment sectors and geographic areas.

The energy, hospitality and entertainment sectors have been particularly hard hit by closures and reduced demand as individuals stayed close to home to limit their exposure to the virus.

As of November 2020, New Mexico had lost approximately 65,500 jobs during the pandemic. The state initially lost 104,400 jobs from February through April but then regained 38,900 from April through November. In November, the unemployment rate stood at 7.5 percent.

Job losses have been especially severe in the leisure and hospitality sector, which had lost almost 41,000 jobs by April before gaining back about 20,900 jobs by November. Other hard-hit sectors include mining and other extraction (mostly oil and gas), which lost 7,200 jobs through November; professional and business services, down 6,900 jobs; and

education and health services, down 8,200 jobs. Encouragingly, the retail sector, which had been down 9,200 jobs through April, has recovered 7,900 of those lost jobs by November.

Reduced demand and public health order restrictions on travel and occupancy have weighed on hotels, restaurants and related businesses. Bars and nightclubs have been closed since March. As a result, monthly taxable gross receipts in Accommodations and Food Service were down 31.3 percent year over year for the quarter which ended June 30, and in Arts, Entertainment and Recreation, gross receipts had fallen 68.1 percent.

The oil and gas sector in New Mexico is reeling from the double hit of a price war early in the year and then reduced consumption related to the pandemic, which has continued to depress prices. New Mexico had 65 rigs at the end of December, according to Baker Hughes, a decline of more than 44% compared to pre-pandemic levels. The collapse in prices and drilling activity hurts local economies dependent on industry jobs and related spending, as well as state government revenue. Revenue from rents and royalties, severance and



COVID-19 PANDEMIC EMERGENCY DAMAGE ASSESSMENT

gross receipts taxes directly attributable to oil and gas activity has made up as much as 30 percent of the state General Fund. That does not include energy revenue that flows into the state's permanent funds or other tax revenue generated by increased economic activity indirectly related to the industry.

Cities and towns, both large and small, along with Native American communities, are facing significant budget challenges as gross receipts tax revenue has fallen, particularly in areas heavily dependent on tourism or on oil and gas extraction. Among the hardest hit by falling gross receipts taxes were Artesia, Hobbs, Roswell, Red River, Santa Rosa, Farmington and Santa Fe. Among counties, Lea, Eddy and Santa Fe have been particularly hard hit, with double-digit year-over-year declines in GRT from April through September.

Bernalillo County, New Mexico's most populous, saw a double-digit year-over-year decline in April gross receipts. Since then, gross receipts have vacillated between slight drops and gains. In September, they were up by 3.1% year over year.

The collapse of oil prices and reduced consumer spending has had a significant effect on state revenues, though the drop so far has not been as steep as previously feared thanks to continued construction activity, federal stimulus payments and taxes from online sales. Oil prices also have rebounded to around \$50 a barrel after having plunged below \$0 early in 2020.

Despite a more optimistic end to the State Fiscal Year 2020, uncertainty remains for the current fiscal year. A new \$900 billion federal stimulus bill has passed, providing new relief. The bill's key components included a new round of stimulus checks, extended unemployment benefits until March 14, 2021, targeted aid for small businesses, and funding for vaccines and nursing homes.

The pandemic will continue to create volatility in the demand for goods and services this winter, especially in sectors already seeing severe declines. However, ongoing vaccine distribution could begin to provide some relief as the year progresses.



NEW MEXICO'S RESPONSE



In March 2020, as images of overwhelmed hospitals in Northern Italy filled TV screens, Americans and New Mexicans began to appreciate the extent to which COVID-19 represented a new, virulent, highly contagious and deadly virus that had the potential to inflict illness and death on a massive scale. By late March, most states across the United States, including New Mexico, had put in place “stay at home” orders. Non-essential businesses and schools across most of the country were closed. These orders helped slow the spread of the virus and are credited with preventing countless deaths; however, the economic toll of the virus began to make itself felt. New Mexico, like other states, recognized

the need to embark upon a responsible, phased reopening in order to maintain public health progress while addressing under the economic dislocation caused by the virus and beginning to rebuild.

On April 30, 2020, New Mexico released a preliminary version of its reopening plan (the “Plan”), with input from and the endorsement of the Economic Recovery Council (“ERC”). The Plan established public health “gating criteria”¹ in four key areas: (i) Spread of COVID-19; (ii) Testing; (iii) Contact Tracing, and; (iv) Health Care System Capacity, with each of these criteria mapping directly to areas identified in the White House Coronavirus Task Force

¹ On April 16, 2020, the White House Coronavirus Task Force released its official guidelines document, “Opening Up American Again.” These guidelines proposed that states should establish a set of gating criteria, based on public health metrics, that would need to be met before embarking upon the first phase of reopening. Each phase of reopening would be followed by a waiting period of several weeks to assess its impact on the spread of the virus. If a state passed through the gating criteria a second time after this waiting period, it could then proceed to the next phase of reopening, and so forth.



NEW MEXICO'S REOPENING

guidelines, and with each assessed using different metrics. Since that preliminary version of the Plan, the state's four gating criteria categories have remained the same, even as the metrics used to assess them have been refined with additional insights and evidence as researchers have learned more about COVID-19.

New Mexico looked to scientific research and evidence in order to establish its phases of reopening. In particular, the state looked to a risk assessment framework developed by the Center for Health Security at the Bloomberg School of Public Health at Johns Hopkins University, (the "Johns Hopkins' Framework") which evaluated physical settings along three dimensions to determine their level of risk: (i) number of contacts; (ii) contact intensity and duration, and; (iii) modification potential (i.e. the ability to modify contact to reduce risk, for example by wearing face coverings or using contactless payments). Using the Johns Hopkins' Framework as a starting point, the state established four primary phases of reopening, with each phase moving up the risk spectrum. In the Preparation Phase, which began May 1, the lowest-risk activities, such as outdoor recreation, were resumed. It was envisioned that

subsequent phases would see the opening of progressively higher-risk activities such as retail environments, gyms, indoor dining and, eventually, casinos and movie theaters.

Underpinning the move through these phases were two critical interventions that the Governor selected in order to buttress a safe and effective reopening:

- » On May 15, 2020, as most of the state moved into Phase One "A" of its reopening, New Mexico became one of the first states to require individuals to wear face coverings in public settings, with limited exceptions. By September, mask mandates had been adopted by [34] states, as scientific evidence about the effectiveness of face coverings continued to mount.
- » At the same time, the Lujan Grisham Administration and the ERC convened task forces of business leaders across approximately twenty industry sectors to propose industry-specific COVID-Safe Practices [<https://cv.nmhealth.org/covid-safe-practices/>] ("CSPs") applicable to their businesses. Approved by the ERC and published in an easy-to-follow checklist format, the CSPs gave individuals, businesses, and employees a clear set of instructions for how to resume activities in the safest manner possible. Many CSPs were integrated into the public health order and became legally mandated. Businesses across New Mexico embraced CSPs enthusiastically as a means of keeping employees safe and attracting and reassuring customers.



NEW MEXICO'S REOPENING

Progress so far and lessons learned

Nine months into the pandemic emergency in New Mexico and seven months into our phased reopening, the steady, measured approach taken by New Mexico has won national attention and praise.² Early in its reopening, New Mexico was identified by national experts as one of only a handful of states actually ready to reopen based on its public health metrics and progress made.

Nevertheless, the state has faced setbacks and challenges in the process of reopening. In mid-June, approximately two weeks after entering into Phase One “B” of its reopening, New Mexico began to witness a steady increase in new case rates driven by statewide community spread. The June/July surge in cases led the state of New Mexico to pull back on some of its reopening measures, most significantly by prohibiting indoor dining again effective July 13. The state also in mid-July announced more stringent enforcement of its mask requirement and a mandatory 14-day quarantine for all individuals arriving into New Mexico from outside the state. Together, these actions, and the active cooperation of New Mexicans across the state, helped drive new cases steeply down again in late July into August.



By Labor Day, dining had been allowed to resume at 25% indoor occupancy and the quarantine order was significantly loosened to allow for increased tourism from lower-risk states into New Mexico. Also, importantly, public elementary schools began to welcome students back to the classroom in a hybrid model, incorporating both in-class and at-home learning, beginning the day after Labor Day in many parts of the state.

In early November, like nearly every state across the country, New Mexico began to experience what would become the most alarming increase in COVID spread to date. As our health care system entered surge capacity, the state initiated a two-week reset period to slow the spread while developing a new tiered, county-by-county reopening strategy. The resulting “Red to Green” framework was launched in early December, permitting counties – and the businesses and nonprofit entities within their borders – to operate under less restrictive public health measures when health metrics demonstrating the extent of the virus’ spread and test positivity within those counties are met.

Business Assistance

The administration of Gov. Michelle Lujan Grisham has marshalled resources from federal, state and private sources in order to support businesses, non-profits, local governments, and individuals as they cope with financial distress brought on by the COVID-19 pandemic. More than \$3 billion in federal loans and grants have been distributed in New Mexico since March, and more than \$700 million in state-directed loans and grants have been made available to businesses and other organizations³.

² Politico, August 21 ; New York Times, April 24; New Mexican, August 8 ; Washington Post, July 21; Scientific American, September 15

³ Business assistance programs can be found online at: [Economic Development Department's COVID-19 Recovery Resources](#).



NEW MEXICO'S REOPENING

Federal Assistance

Congress created two major programs to help businesses affected by the pandemic, the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loans program (EIDL).

The PPP, administered by the Small Business Administration, provided small businesses with funds to pay up to eight weeks of payroll costs and to pay interest on mortgages, rent and utilities. The loans are forgivable if used for employee retention and the money is used for eligible expenses. The EIDL program provided loans and grants to cover a wide variety of capital and normal operating expenses.

New Mexico's businesses have participated actively in these programs, with significant support from the State of New Mexico and from community banks, credit unions, and nonprofits across the state. Indeed, New Mexico was one of the first states to receive statewide approval from the SBA to make the EIDL program available in March. Over 20,000 New Mexico businesses collectively took advantage of approximately \$2.3 billion in PPP loans and over \$700 million in EIDL loans/grants.

In addition, the State of New Mexico initially distributed \$178 million in federal CARES Act grants to city, county and tribal governments. That money includes \$50 million for local grant programs to support small businesses impacted by the health emergency.

That aid was followed in November by a \$300 million relief package passed in a special session of the Legislature. The November legislation allocates \$100 million in CARES Act funding to provide grants to small businesses, with an emphasis on hotels restaurants and other leisure and hospitality businesses.



Best Western Cannon Air Force Base

“The Small Business Recovery Loan Fund is a great assistance from our partners during this unprecedented time. The funds received under this program will help us with our day-to-day operation expenses as well as keep our workforce employed. We as business owners have complied with the necessary restrictions and safe practices, and the State of NM has held up their end of the bargain by rolling out this loan program at very nominal interest rates.”

*– Dhawal "Danny" Jariwala
Owner, Best Western Cannon AFB*



NEW MEXICO'S REOPENING

The package also includes a one-time pandemic benefit of \$1,200 for more than 100,000 New Mexicans claiming unemployment benefits; \$15 million for emergency housing and assistance for the homeless; \$5 million for emergency food bank services; and up to \$5 million for direct assistance to low-income residents who did not receive an “economic impact payment” from the federal government.

State Assistance

The Small Business Recovery Act, passed during a special session of the Legislature in June 2020, directed the State Investment Officer to commit up to \$400 million of the New Mexico Severance Tax Permanent Fund to create the New Mexico Recovery Loan Fund. The program, administered by the New Mexico Finance Authority, provides very low interest rate loans on borrower-friendly terms to businesses and nonprofits that have experienced financial hardship due to the health emergency.

Another program, the New Mexico Recovery Fund, created by the State Investment Council and administered by Sun Mountain Capital, can make up to \$100 million in loans. The program is intended for businesses with 40 or more employees that are creditworthy and can demonstrate the financial strength needed for recovery after the crisis.

Other assistance for businesses is available from the Small Business Investment Corporation, which has \$45 million available for pandemic-related loans; the Essential Services Working Capital Program, administered by the New Mexico Finance Authority, with \$12.5 million in loans available to essential businesses; and the state's Economic Development Department, which has provided loan guarantees on \$2.25 million in lending to 47 businesses and almost \$6 million in no-interest loans from the state Local Economic Development Act fund (LEDA).



Violet Crown Cinema - Santa Fe

Violet Crown Santa Fe has been a destination for Santa Feans and tourists alike since 2015. First and foremost a top quality cinema, Violet Crown is also a food and beer hall showcasing New Mexico breweries and cuisine. The New Mexico Recovery Fund collaborated with Violet Crown's existing lender, Enterprise Bank & Trust, to structure a crucial loan that ensures the business will survive this pandemic and thrive once again.

“ Our goal from the outset of COVID was to secure a capital bridge that would allow us the flexibility to remain closed until we saw a clear path to re-opening in a safe and profitable way. With this new financing we now have that. ”

– Bill Banowsky
Owner, Violet Crown Cinema



SMALL BUSINESS RECOVERY GRANTS

In August 2020, the Lujan Grisham Administration announced that it would allocate \$178 million of the CARES Act monies received from the federal government to grants to local governments, tribal governments, and small businesses across New Mexico. \$50 million of this was dedicated to small business grants, to be made by the local governments who know their communities best with technical assistance from the Department of Finance & Administration (DFA). In all, 66 local government entities applied to provide a small business grant program in their communities. All applicants received funding, with a 10% bonus provided for rural communities. The grants are available to small businesses who have been impacted by the COVID-19 pandemic health emergency and can be used on business continuity expenses like rent and payroll and also on retrofitting space to adhere to COVID-Safe Practices.



NEW OPPORTUNITIES



The pandemic has forced companies and individuals alike to rethink how and where they conduct business. The recognition of our over-reliance on China in supply chains, the sudden eye-opening possibilities of remote work, and the renewed importance of safety in shared workspaces will create lasting changes. New Mexico is well positioned to offer solutions. Our state has an attractive quality of life, a strong and growing logistics infrastructure, well-established connections to Mexican manufacturing, and a newfound reputation as a place where public health and worker safety is taken seriously.

Remote Working

The closure of non-essential businesses across the country in March led to a new model of work and life for millions of Americans. Organizations learned how to operate in a completely remote work environment, with employees interacting through phone, email, and collaboration platforms like Zoom, Google Meet, and Microsoft Teams. Many employees report that they enjoy this work model more than a traditional office environment; in fact, a survey conducted by the Society for Human Resource Management found that



OPPORTUNITIES CREATED BY THE CRISIS

94% of companies reported comparable or higher employee productivity following a transition to remote work during COVID-19¹. And companies have found that they can save money by reducing their footprint and keeping more people at home for longer. Indeed, Facebook in May announced that the company would allow employees to work remotely from anywhere in the United States for the long term, with their salaries adjusting somewhat to account for generally lower cost of living outside of the San Francisco Bay area. Other leading companies like Twitter and VMware have since followed suit with similar announcements. Experts believe that the pandemic is likely to strengthen the trend toward teleworking that was already taking shape in many workplaces pre-pandemic.

Against this backdrop, states and cities that can offer a high quality of life with solid communications infrastructure are now able to attract workers who previously could never have considered living and working

there. There are anecdotal reports of Facebook engineers investigating homes in Santa Fe and Albuquerque, as an example of this. This creates a new opportunity for New Mexico to attract an entirely different set of mid-career professionals than it had historically been able to compete for.

Even more importantly, the rise of remote working means that New Mexicans can more readily build industry-leading companies while staying in the state. Recruitment challenges that may have traditionally caused New Mexico startups to relocate (e.g., difficulty finding an experienced vice president of sales who has scaled multiple Software-as-a-Service companies from startup to exit) are now addressable via a remote hire or second office. Although this scenario was possible pre-pandemic, the model of work nurtured by the pandemic has made these opportunities more actionable and obvious for both employers and employees.

¹ ["Study Finds Productivity Not Deterred By Shift To Remote Work,"](#) Society for Human Resource Management, September 16, 2020.



OPPORTUNITIES CREATED BY THE CRISIS

Reshoring

The global pandemic has put into stark relief the vulnerability of global supply chains, particularly for critical inputs to processes like drug development and pharmaceutical manufacturing. American policymakers and executives are less comfortable today relying entirely on an overseas supply chain than they were pre-pandemic. In this context, New Mexico, with its strategic location adjacent along the U.S.-Mexico border, at the intersection of three interstate highways, and with its favorable climate, stable natural environment, and budding inland port potential, is well-positioned to become a destination of choice for domestic manufacturers looking to re-shore core components of their production process and for foreign manufacturers seeking to establish a location within the continental United States. Indeed, Business Facilities magazine recently called out New Mexico as a manufacturing and logistics “powerhouse” based upon these factors, which are more salient today in light of the pandemic².

Increased Emphasis on Worker Safety and Work-Life Balance

Some observers have noted that changing work models introduced by the pandemic will carry over even after most workers have returned to their workplaces. In particular, there will be an increased focus on worker safety and health and also on work-life balance. New Mexico is well-positioned across both of these dimensions given the state’s worker-friendly posture and strong public health track record during the pandemic. Indeed, before the pandemic, the State of New Mexico had provided for 12 weeks of paid maternity leave for all state employees, [one of the first states in the country to do so] and a testament to the growing emphasis on worker-friendly and family-friendly policies that position New Mexico well to compete for the jobs and workers of the future.

² [New Mexico: A Global Manufacturing And Logistics Power-house.](#) Business Facilities. September 2, 2020.

XXENTRIA

The Xxentria deal recently closed by the Economic Development Department resulted due to a bi-national trade mission to Taiwan by Secretary Keyes, Senior Advisor to the Governor Dominic Gabello and the Secretaria de Innovacion y Desarrollo Economico of Chihuahua, Alejandro de la t aVega. Many Asian companies are looking to onshore manufacturing to the United States and New Mexico’s border region is a premier location. In addition, the COVID pandemic has also spurred much interest from domestic companies to re-shore their production.

Xxentria will manufacture metal composite materials in Mexico and have their distribution and headquarters in Santa Teresa, NM. The company will initially hire 35 employees but also plans to recruit their supply chain to the region. EDD is hiring a Taiwanese consultant to assist the company with their transition and the numerous other companies that are now interested in having facilities in New Mexico. This type of global trade and Foreign Direct Investment (“FDI”) are a major focus for this administration moving forward during our recovery.



COMPANIES SHOW HEIGHTENED INTEREST IN NEW MEXICO AMID PANDEMIC

Despite the pandemic, NMEDD is encouraged by and optimistic about the continued potential to attract national and international companies to New Mexico. Secretary Keyes and her team travelled to Taiwan and Japan shortly before the COVID-19 pandemic and all indications point to it having been a fruitful mission. One company has already announced its decision to make New Mexico its North American Headquarters as well as its distribution hub for all of the United States. This along with the previous decision by Admiral Cable to locate in New Mexico for their manufacturing operations has led NMEDD to make the decision to invest a significant portion of the FY21 contracts budget to establish a Taiwan trade office with a contractor who will dedicate 100% of his time to generating leads and facilitating deals for New Mexico.

The New Mexico Partnership is working with India, generating additional leads and resources toward onshoring and reshoring manufacturing, especially as it relates to PPE and pharmaceuticals. The result of this work will be a virtual conference in association with the Consulate General of India and numerous Indian companies eager to establish a manufacturing presence in New Mexico.

Despite the difficulties imposed on businesses worldwide by the COVID-19 pandemic, NMEDD has continued to see a steady stream of interest in expansions and relocations to New Mexico.

Since March and the beginning of the COVID-19 pandemic, the department has announced the following LEDA deals expected to create over 850 economic base jobs, with an average salary of \$60,000/year, and over \$1.5B in direct economic impact over 10 Years:



COMPANIES SHOW HEIGHTENED INTEREST IN NEW MEXICO AMID PANDEMIC



Dona Ana County

Warehouse, Logistics and Distribution

50 Jobs



Valencia County

Broadband and emissions monitoring from
the stratosphere

150 Jobs



Las Cruces

Pipeline monitoring using software
developed in New Mexico and monitoring
using drones and helicopters

67 Jobs



Albuquerque

Gunshot detection for active shooter
situations, both indoors and outdoors,
technology developed in New Mexico

20 jobs

SAVANT **X**

Santa Fe

A company at the leading edge of
quantum computing is relocating its
corporate research headquarters

128 Jobs



Spaceport America

A telecommunications company working
on development of the unmanned solar-
powered High-Altitude Platform Station.
The stratospheric telecommunications
platform, a so-called cell-tower in
the sky, is designed to provide better
communications to underserved areas,
including rural communities.

30 Jobs



Roswell

Airplane Repair and Maintenance

360 Jobs



BRIDGE TO RECOVERY: REPLACING LOST JOBS



New Mexico must first focus on recovering and replacing the 60,000 jobs lost to the pandemic as quickly as possible. More than half of those jobs are in just a couple of sectors: energy production and leisure/hospitality. Strategic investments in tourism marketing and innovative solutions for the restaurants and entertainment venues can go a long way to speed recovery of those industries. But the concentration of job losses and the energy sector's notorious volatility should be a wake-up call for getting serious about diversifying the New Mexico economy.

Near-Term Outlook for Selected Industries

Film & TV Production

The pandemic has created a large production backlog that, when considered in light of New Mexico's burgeoning production footprint, augurs well for future production in the state. The NM Film Office is poised for an influx of productions into New Mexico heading into the Fall and Winter.



FILM & TV PRODUCTION

The New Mexico film industry pre-pandemic was a clear bright spot in the state's economy. With world class production infrastructure and a talented workforce, New Mexico was well positioned to build on its success.

In 2019, production activity in New Mexico grew to more than \$525 million in direct spending, up from \$234 million in 2018. Film and television producers contracted with 2,580 distinct New Mexico businesses for goods and services used in production, and more than 12,200 cast and crew positions were filled by New Mexico residents.

Expansion of the tax credit program for productions made in New Mexico during the first year of Gov. Michelle Lujan Grisham's administration accelerated the film industry's already-strong interest in the state.

In 2019, NBC Universal announced it would spend \$4 million to redevelop an Albuquerque warehouse into a new studio and committed to \$500 million in production spending over ten years. The new studio is expected to generate a total of more than 800 direct and indirect jobs, according to an economic analysis by the state, and its economic impact is estimated at \$1.1 billion over 10 years.

NBC Universal's investment followed Netflix's 2018 purchase of Albuquerque Studios, which is now the company's U.S. production hub and one of the largest production hubs in North America. Netflix in December of 2020 announced a major expansion of its New Mexico studio complex with ten new stages, post-production services, office, mills, backlots and other infrastructure, and said it would spend an additional \$1 billion on productions there. The company had already committed to spending at least \$600 million on its own productions in its first five years of owning the studio, and \$400 million in direct and indirect spending. In addition to the construction jobs, the Netflix investment will result in the creation of 1,000 production jobs over the next 10 years, according to the Economic Development Department, and the company has agreed to provide training programs for New Mexicans.

When the COVID-19 pandemic shut down film and television production around the world in early 2020, New Mexico initially was no exception. Five feature films and seven television series were in production in the state this year before limitations imposed by the pandemic forced most work to stop.

But by late August, film and tv production began to gradually, strategically resume with adherence to New Mexico COVID Safe Practices, an industry joint labor agreement and additional protocols and recommendations. To further help guide the industry, the New Mexico Film Office released Back2One, a set of principles, general recommendations, and resources for productions operating during COVID-19, available at www.nmfilm.com.

The strong health and safety measures undertaken by the Lujan Grisham administration have created a lower risk environment that adds to the extraordinary appeal of filming here. Add that to New Mexico's state-of-the-art studios, proximity to Los Angeles and other key attributes, and the state has significant advantages in attracting direct investment and job creation in the coming years.



BRIDGE TO RECOVERY: REPLACING LOST JOBS



Leisure and Hospitality

No industry has been impacted more by the pandemic than Leisure and Hospitality, including hotels and restaurants, with employment down 20%, or 19,400 jobs, year-over-year in November. Given the importance of tourism to New Mexico's economy, it is critical that we provide support to help these industry sectors recover.

In 2019, Leisure and Hospitality celebrated its ninth consecutive record-breaking year for the state. Indeed, prior to the pandemic, the industry was experiencing significant growth:

- » \$7.4 billion in visitor spending representing an unprecedented 5% increase from previous year
- » Over \$1 billion increase in visitor spending since 2015
- » 72,537 direct and 23,527 indirect and induced jobs supported by tourism
- » \$1.5 billion in tax revenue generated
- » \$737 million in revenue accruing to state and local governments
- » 37.4 million trips to New Mexico—the highest number of visits we've ever welcomed

Post COVID-19, there will be an influx of destination marketing organizations all vying for the same set of consumers to restore travel. New Mexico has a strategic advantage coming out of COVID-19 due to its strong outdoor recreation assets and abundance of open spaces. When travel is once again safe, New Mexico can swiftly rebuild this sector by actively investing stimulus funds for tourism promotion.

Oil & Gas

Despite some stabilization in the New Mexico oil patch since prices collapsed earlier this year, low demand and excess supply worldwide still stand in the way of a full recovery. Active drilling rigs in New Mexico stand at 58, compared to a high of 117 before the crash.

Still, there is cause to be optimistic about the state's oil and gas industry when economic recovery takes hold across the world. A recent report showed New Mexico's oil and natural gas industry is poised to attract as much as \$174 billion in new infrastructure investments through 2030¹.

An eventual rebound in the oil and gas industry could provide the financial resources for economic development investment and diversification.

The state's oil and gas industry also is well suited to participate in other development opportunities. From helium and geothermal development to the development of hydrogen energy, operators and contractors have the relationships, skill sets and tools to expand New Mexico's energy economy in ways that align with the goals established by the Energy Transition Act and the Governor's January 2019 Climate Change Executive Order.

¹ "The Economic Importance of New Mexico Oil and Natural Gas Infrastructure." ICF International. September 2019.



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Challenges Laid Bare by the Crisis

The pandemic emergency has created opportunities that play to New Mexico's strengths. At the same time, it has highlighted several of the challenges that have long hampered the state's efforts to diversify and grow its economy. The rise of teleworking and remote schooling has laid bare the lack of broadband infrastructure in many parts of rural New Mexico. The outbreak on the Navajo Nation and smaller outbreaks in certain Pueblos highlighted the need to continue to invest in tribal infrastructure, in particular. The opportunity created by reshoring has made the need to invest in workforce readiness all the more urgent. And the opportunities in film, tourism, and other industries have made industry-specific incentives and development initiatives even more necessary and timely now than in the past.

Below we discuss a handful of policy recommendations, developed and endorsed by the ERC, that can help New Mexico address its long-standing challenges and seize these opportunities head-on.



Critical Infrastructure

Capital Outlay System Changes

COVID-19 has exposed a significant need for infrastructure investments. The pandemic has uniquely changed the infrastructure deficit conversation from one being about roads and bridges to one about lives and families. No longer is a haphazard system for critical capital infrastructure allowable. It is now clearly demonstrated the New Mexicans' health and safety depend upon a focused, prioritized and coordinated capital outlay process. Indeed, the Legislative Finance Committee summarized the need to reform the current Capital Outlay system in this way:

Given the volatility of severance tax revenue and the inability of available capital outlay funding to meet all of the state's infrastructure needs, legislators and the executive branch continue to scrutinize the vast amounts of unexpended appropriations and large number of projects that remain inactive. Poor project selection (including insufficient planning, a piecemeal approach to funding, and unknown construction costs) continues to delay project completion. These problems should compel policymakers to carefully distinguish future project funding by priority, readiness to proceed, need, public purpose, and merit.

There are several precedents where the Legislature has carefully delegated capital outlay spending authority to highly scrutinized public entities specifically for the purpose of prioritization in critically underserved government functions and communities. The Public School Capital Outlay Council was created to address inequity in the capital investments for the

¹ [Legislative Finance Committee Hearing Brief: 2019 Capacity and Capital Requests](#), December 2018.



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state's public education system. Similarly, the New Mexico Finance Authority governs capital outlay earmarks for water projects (9%) and Colonias (4.5%). Finally, another allocation of capital outlay is reserved for underserved tribal infrastructure (4.5%).

Proposals:

- » Earmark 25% of future Severance Tax Bonding capacity for critical capital outlay expenditures to be overseen by a newly created Critical Capital Outlay Council. The council would be appointed by the Governor and the Legislature and would provide for a diversity of perspectives by individuals from around the state qualified to evaluate capital outlay projects.
- » Increase earmark of Severance Tax Bonding capacity for tribal infrastructure from 4.5% to 9% and Colonias from 4.5% to 7%.

Broadband

Allowing New Mexico's digital divide to persist is not an option in a world where business, education and even health care depend on reliable, widely available broadband service. An estimated 13 – 20% of New Mexico homes and businesses do not have access to broadband, a shortfall especially acute in rural communities².

Broadband projects can leverage significant federal funding. Without additional resources, the state Department of Information Technology's Office of Broadband is leaving behind potentially hundreds of millions in federal funds.

² ["State of New Mexico Broadband Strategic Plan and Rural Broadband Assessment,"](#) CTC Technology & Energy. Prepared for the New Mexico Department of Information Technology, June 2020.



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Proposal:

- » Earmark 50% of Severance Tax Bonding capacity in 2021 for broadband projects (estimated at \$215 million). The Legislature should also consider requiring Internet Service Providers operating in New Mexico to report detailed broadband coverage and pricing data to DoIT on a quarterly basis. This will encourage healthy competition, widening access and improving affordability.

Jobs

Economic Development Incentives

New Mexico must avoid repeating mistakes made in the wake of the Great Recession, when economic development incentives were cut in the name of budget savings. Those cuts factored into New Mexico's slow recovery.

The state of New Mexico employs a handful of core economic development incentives that it uses to recruit businesses to New Mexico and support expansions of current in-state businesses. The two primary tools, administered by NMEDD, are the Local Economic Development Act (LEDA), a recallable grant used to support business footprint expansion based on committed job growth targets, and the Job Training Incentive Program (JTIP), a job training incentive paid on a per-employee basis to participating companies. Both will be important tools for continuing to build New Mexico's border trade as well as the state's overall economy.

New Mexico also has a variety of tax credits and incentives to support economic development, ranging from relatively large programs like the Film Tax Credit, to smaller but still important programs like the Manufacturing Investment Tax Credit, the Angel Investment Tax Credit, and the Technology Jobs and Research Tax Credit.



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In the fiscal downturn coinciding with the Great Recession, LEDA was cut to zero and JTIP was cut by 50%. These cuts made it that much more difficult for New Mexico to rebound from that recession; and, indeed, New Mexico took a full ten years to recover the jobs lost in that downturn.

New Mexico must avoid repeating the mistakes of the past and maintain its investment in these vital economic development tools to help our economy rebound strongly coming out of the pandemic. We cannot afford another lost decade like the one that followed the last recession.

Proposals:

- » Infuse \$100 million into the Job Training Incentive Program (JTIP) and expand the program by making leisure and hospitality sector businesses eligible to take part. Rules for the program should be amended to allow for reimbursement of salaries for employees rehired after being laid off because of COVID-19 impacts. Salary reimbursement should be allowed for up to one year. In addition to legislative action, this proposal would require approval from the JTIP board.
- » Amend LEDA and increase funding by \$100 million to assist small businesses with rent and mortgage payments as they reopen and rehire employees. Also, LEDA should be amended so that larger

projects can be supported through gross receipts taxes generated by those projects. Under this proposal, 75% of the GRT generated by a company receiving LEDA money would be diverted to the Economic Development Department's LEDA fund.

- » Maintain funding levels for the Film Tax Credit.

Accelerating Recovery for the Leisure and Hospitality Sector

To bolster the state's second largest and most impacted sector, it is imperative that we enact bold and immediate investments. Communities across New Mexico have local lodgers' taxes that help fund local tourism promotion activities. At the state level, there is no dedicated source of ongoing funding for these activities. Rather, the state's Tourism Department seeks an annual appropriation from the Legislature each year to fund its promotion activities, most prominently the New Mexico True campaign. It makes sense to increase funding to bring more tourists to New Mexico—when safe to do so—to support our local tourism-dependent sectors, our economy, and our state budget.

Alongside lodging, restaurants are among the businesses most impacted by the pandemic. Many have pivoted to models reliant on takeout, delivery, outdoor dining and other business lines but continue to struggle financially. Restaurant owners say



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patrons have expressed interest in being able to order alcohol with their takeout or delivery meals, which would provide an additional revenue stream.

Proposals:

- » Approve a \$25 million special appropriation for immediate promotion investment.
- » Implement a 2 percent statewide Tourism Tax, raising up to \$30 million annually for promotion while still keeping New Mexico rates competitive with other states.
- » Amend the Liquor Control Act allowing for takeout or delivery of alcohol with meal orders from restaurants. Businesses that deal primarily in package sales also should be allowed to deliver or use a third party to deliver.
- » Expand the Job Training Incentive Program (JTIP) to include leisure and hospitality businesses. (See above Economic Development Incentives for more information.) In addition to

legislative action, this proposal would require approval from the JTIP board.

Small Business Relief

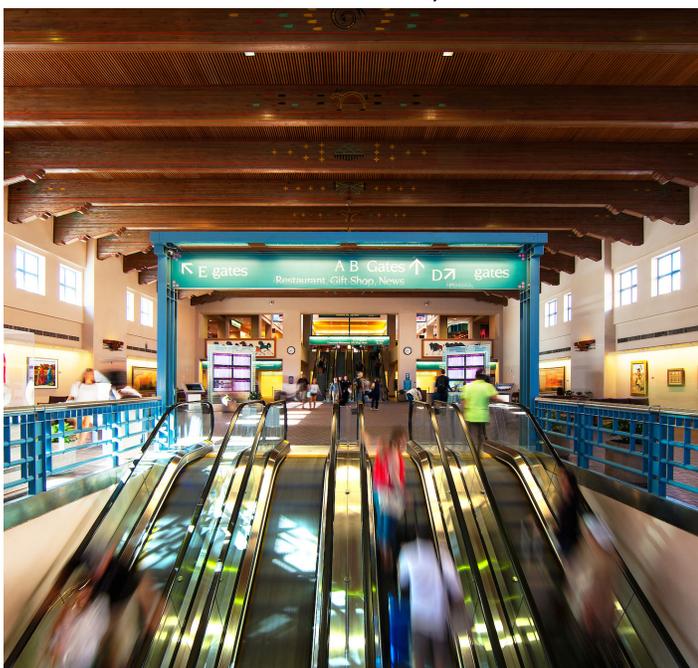
Our small businesses have borne the brunt of the economic toll of the pandemic. While many have seen a reduction in revenue, they have also experienced increased expenses to keep customers and employees safe. It is imperative that the state support small businesses in meaningful ways to ease the financial burden.

The state has made over \$700 million available in support to small businesses, but it is clear that more must be done to not only provide immediate relief but to also create a path to recovery.

In particular, the Small Business Recovery Loan Fund (SB 3), allocating \$400 million from the Severance Tax Permanent Fund for low-interest, borrower-friendly loans, must be retooled. While the program has been a lifeline for nearly 700 of the state's most impacted small businesses, it is expected that the majority of the funds will go unclaimed due to the strict eligibility requirements.

Proposals:

- » Extend and expand the \$400 million Small Business Recovery Loan Fund (SB 3) to make it accessible to more businesses seeking long-term viability. The Legislature should consider the following to give the New Mexico Finance Authority greater flexibility in administering the program:
 - Allow businesses to demonstrate severe economic impact in any time period since the pandemic began.
 - Amend the business owner residency requirement to demonstration of either 51% ownership by New



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Mexican(s) or that at least 90% of employees are New Mexicans.

- Increase maximum loan amounts to \$150,000 based upon numbers of employees.
- » Extend tax penalty and interest relief granted under HB6, which includes Personal and Corporate Income Tax, Withholding Tax, Gross Receipts Tax, and Property Tax.
- » Increase share of state contracts to New Mexico businesses through procurement reform, to include: an increase in the New Mexico resident business preference, extending the resident veteran business preference and standardizing and streamlining the RFP process.
- » Restore the 6% budget cut (\$250,000) to the New Mexico Small Business Development Center (NMSBDC) Network, a result of the June Special Session. NMSBDC has provided crucial technical assistance to small businesses both before and through the pandemic. Budget cuts threaten closure of one or more of their 19 centers across the state.
- » Rent forgiveness for hard-hit business tenants of state-owned facilities.
- » Direct \$1 million to \$3 million to the New Mexico Economic Development Department's (NMEDD) COVID-19 Loan Guarantee Program.

» Direct \$2 million to \$5 million to NMEDD's Collateral Assistance Program.

Remote Worker Relocation Incentives

Even before the pandemic, certain forward-looking states and cities had established incentive programs to lure remote workers to relocate in their communities. The rationales are obvious: remote workers bring their own job and source of income; they are often tech-savvy and can contribute important skills to local economies; and, ultimately, they bring the potential for more job growth if their employers come to see their new locales as attractive places to hire more people.

The State of Vermont established a program in 2019 to provide a \$10,000 relocation bonus to out-of-state workers who choose to relocate and live and work remotely in the Green Mountain State. Numerous cities around the country have followed suit, often combining a relocation bonus with community integration support, including free memberships to co-working spaces and invitations to networking events. Cities that have launched such programs include Tulsa, OK, Baltimore, MD, and New Haven, CT.

New Mexico has sufficient lifestyle and cultural appeal to many people that any financial incentive would likely be secondary; indeed, the most important role that a financial incentive would play would be to put New Mexico "on the map" and part of the core consideration set for those looking to relocate from high-cost coastal and other cities.

Proposal:

- » Explore establishing a Remote Worker Relocation Program. This could be piloted using philanthropic dollars, with state support potentially layered on once a proof of concept has been established.

