

Albuquerque's
Industrial Revenue Bond Program:
Community Stakeholder Perspectives and Recommendations

Prepared for
Albuquerque City Council

Prepared by
Teresa Córdova, Ph.D.

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Executive Summary

The City Council has mandated a review of its industrial revenue bond policy. The review is in two parts. The central expectation for this portion of the independent review is the articulation of the issues surrounding IRBs from the perspectives of the "community at large." Up to now, the debate has not fully considered those voices, thereby necessitating this report. Doing so broadens the terms of the debate. It now requires an analysis of the economy and the impacts of economic development policies to include issues of availability *and* quality of jobs, the conditions under which a corporation receives tax advantages, corporate citizenship, and cultural and social aspects of quality of life. Perhaps most importantly, the debate over IRBs raises the issues of who makes economic development decisions: is it only developers and economic development professionals or does it also include the citizenry and elected and appointed government officials?

Broader perspectives from community stakeholders bring forth the debate over the kind of city Albuquerque will become. Is it a city of rapid growth and job creation paralleled with exacerbated inequality, quickly building wealth for some, but not for others? Or will Albuquerque become a city that prides itself on meeting the social, economic, and cultural needs of its residents and creating a special sense of place? Beyond the question of "Do the incentives really result in good economic development outcomes" Albuquerque, if it is to respond to all of its residents including long standing communities, must continue to ask, *What kind of city do we want Albuquerque to be, in whose interests, and with what impacts?*

These are some of the questions that emerge when reviewing the perspectives of elected and appointed government officials, unions, community organizations, neighborhood associations and advocacy and service groups. To that degree, the City Council is in a very important position to create the space for these issues to be discussed further and to be settled in a way that makes Albuquerque a better place in more broadly defined terms. It is important, therefore, to create the forums where these questions can be addressed and where a range of people can participate comfortably and effectively.

The opportunity to review Industrial Revenue Bond policy in Albuquerque is an opportunity to move forward in defining the future of the city. In

the mid-1990s in a period of prosperity, municipalities were generous in giving tax breaks to corporations. Now with economic slowdowns, they are experiencing a shrinking tax base. Cities throughout the country are re considering their economic policies of the 1990s and beginning to be more selective and more strategic about how they pursue economic activity. So while Albuquerque is not unique in its review of tax and economic development policies, it can be very unique in how it reviews those policies - who it allows to be part of the discussion, which factors it considers relevant, and how patient it is willing to be.

Because this review of Industrial Revenue Bonds is inseparable from a discussion of economic development strategies and their impacts on creating the city, stakeholders took us into a discussion of the economy, economic development, taxation policies, decision making, the role of the government, corporate citizenship, and urban meaning. Specific to IRBs, community stakeholders also provide recommendations for improving the program on the decision making process, selection criteria and due diligence, reporting and monitoring, conditions for granting an IRB, and penalties for non compliance of agreements and conditions.

100% of interviewees were aware of IRB assistance and were pleased that the Council is rethinking the IRB process. It is notable that this is not a partisan issue. There were both republicans and democrats who agreed on the range of issues that need to be considered. There was striking consistency among perspectives, from elected officials, city agencies, commissions, advocacy organizations, unions, neighborhood associations, and community economic development organizations with respect to the issues and even what needed to be addressed and generally how. There was enough variation, however, to provide a number of useful details. People were very informed with a sophisticated understanding of the issues. They often felt passion about the importance of the issues and their long-term impacts. People viewed the study in a serious light and requested that it be an honest and serious evaluation.

Among the many perspectives and recommendations, community stakeholders made the following points:

- Job generation has been the primary stated goal of economic development professionals in their pursuit of industrial revenue bonds for corporations that they recruit. The benefits of the IRB policy, however, are not clearly evidenced. Given that household wealth has not increased during periods of job growth, stakeholders make the argument that the current approach to economic development is not reflected in quality jobs with

possibilities for training and advancement.

- Current fiscal analyses base claim of benefits on company projections, are specific to one project (i.e. do not provide cumulative data), and do not capture indicators of job quality. At the same time, the assessments do not incorporate costs such as additional strain on municipal budgets.

- A few “key actors” monopolize economic development policy and make decisions in their own interests but not in the interests of the community at large. Economic development decisions are the purview of community stakeholders. Thus, the process and discourse should be opened to allow for a wider range of interests to be represented. Providing incentives and opportunities to increase the capacity of stakeholders to participate in economic development would be a useful way for councilors to create a more informed and engaged citizenry.

- There is an absence of an economic development plan that is representative of a wide range of interests. Developing such a plan will require the creation of a comfortable space and opportunities for inclusion. A clear plan will provide goals and guidelines for establishing criteria and conditions for a company to receive an industrial revenue bond. Stakeholders provide a substantial list of criteria and conditions that are the basis for an effective industrial revenue bond policy.

- The City’s Industrial revenue bond policy is regarded as an important economic development tool when used wisely. The city must engage in good business practices in the use of this tool. Defining a projected outcome and measuring the performance are a minimum. This is only possible with efficient and consistent record keeping and monitoring.

- If corporations are to receive the benefits of its association with the municipality, then stakeholders insist that the company provide direct and measurable benefits to the community, including quality jobs, social programs etc. Company promises can be built at the front end into the bond agreements. Stakeholders expect compliance with promises made and when non-compliance occurs, penalties be assessed. Again, stakeholders provide a long list of significant ideas for accountability measures.

- Widespread support exists for small businesses and their importance to the economy in New Mexico. By creating an IRB-like product for locally owned small businesses, the city can generate successful economic activity. This will require finding banks that will finance the bonds and

covering costs for bond attorneys. A cooperative account for small businesses may make this more feasible.

- Cost competitiveness can be defined in a multitude of ways without taking the position that the only asset is a “cheap” labor force. Rather, a strong labor force is the major factor in corporate site selection, but as the local labor force is trained, it also needs to be educated. Emphasis should be placed on building the capacity of more residents to participate in the economy in ways that are meaningful and beneficial.

- A sense of cultural tradition that is centuries old is Albuquerque’s most important, yet most fragile asset. Stakeholders value their “sense of place” and do not want careless development to destroy the cultural landscape. Economic activity should build upon assets of the community, for example family based culture.

- The city council is uniquely positioned to provide creative leadership to raise the level of the debate over how Albuquerque will define itself. The more open and broad the debate is defined, the better will be its outcome, particularly in the long term.

Introduction

In fall 2000, the Albuquerque City Council mandated an analysis with recommendations of its Industrial Revenue Bond Policy. In Resolution 90-1985, the Council called for “an independent review of the City’s Industrial Revenue Bond program to ensure that the interests of the community at-large are represented.” In doing so, the City of Albuquerque joins an increasing number of local municipalities that are re-evaluating their tax incentive programs in the context of larger considerations. Cities are asking, “Do the incentives really result in good economic development outcomes?”

Indeed, the debate in Albuquerque over Industrial Revenue Bonds (IRBs) is a debate over economic development and beyond that, a debate over how the city should develop. A discussion of Industrial Revenue Bonds, therefore, is inseparable from a discussion of economic development strategies and their outcomes. Though this study is not an economic development impact analysis, it is an analysis of stakeholder perspectives on economic development and industrial revenue bond policies and procedures.¹ The integration of stakeholders’ perspectives is an essential component of future economic development strategies and the major goal of this analysis, per the Council’s desire is to “ensure that the interests of the community at large are represented.”

What kind of economic development strategy should the city pursue (including tools used); who should be involved in making that decision; when tax incentives are given, under what conditions should they be given, what should be the process for deciding, and what should be the accountability measures?

This independent review, therefore, is designed to enhance our understanding of the debates surrounding industrial revenue bonds as they relate to economic development. With a particular focus on community stakeholder perspectives, this study provides clarity on a number of issues surrounding the IRB debate. What kind of economic development strategy should the city pursue (including tools used); who should be involved in making that decision; when tax incentives are given, under what conditions should they be given, what should be the process for deciding, and what should be the accountability measures? An examination of these issues allows us to also ask questions about corporate citizenship, the role of government, and an active citizenry. What is Albuquerque’s vision for itself and how does an effective IRB policy help it to achieve that vision? The study concludes with a set of recommendations.

By clarifying the debate over industrial revenue bonds, the City can determine effective economic development strategies, as well as steps to improve its favorite tool, the IRB. This report contains sections on stakeholder perspectives and recommendations and a final conclusion with recommendations for next steps.

Part I. Background

Interviews, focus groups, and meetings of stakeholders were conducted over a three-month period in which each stakeholder was asked the same set of questions.

Research Questions and Methodology

What are the perspectives of stakeholders with respect to Industrial Revenue Bonds? Stakeholders include members of community advocacy and development organizations, union representatives, neighborhood associations, elected officials (former and current), officials of relevant government agencies, and members of relevant commissions. Interviews, focus groups, and meetings of stakeholders were conducted over a three-month period in which each stakeholder was asked the same set of questions. The answers to these questions were supplemented with relevant documents from organizations and agencies. In addition, I interviewed bond attorneys, 'economic development professionals,' and economists.

As a means of ascertaining stakeholder perspectives, I sought the following information directly from them:

- Economic objectives that they believe City Government and the economic development professionals *should* have for the community, contrasted with the objectives they believe these entities *do* have
- Their perceptions of the community's cost competitiveness and business appeal for the attraction and retention of desirable investment
- Examples of the types of projects and companies they believe to be "worthy" and "unworthy" of IRB funding and the conditions for awarding or not awarding IRBs (e.g. industries and uses, community benefits, employment size and type, and conformance with livability factors).
- Perceived or actual impacts of the City's IRB policies
- Specific concerns or issues they have with the City's IRB program, in addition to any stated above
- Their suggestions for improving the IRB program. Especially those surrounding:
 - Company Eligibility Requirements/Selection Criteria
 - Due Diligence on Companies
 - IRB Recipient Compliance
 - Monitoring and Performance Measurement
 - Accountability Measures/Penalties for Noncompliance
 - Public Involvement, Disclosure and General Communication
 - Stated missions, targeted constituencies, funding sources, and major activities of stakeholder organization or agency

Trends in Albuquerque's Economy

A report for the City of Albuquerque in June 2002 produced statistics on employment, earnings, and income.² Since 1979, private sector employment growth has fluctuated in relation to national trends. In the 1980s, the rest of the nation was more severely hit by impacts of economic restructuring while Albuquerque experienced a percentage increase in private sector employment (3.6%). By the late 1980s the rate dipped again, but during the period of 1991-1995, local private employment outpaced national private sector growth. Since 1995, job growth has slowed in relation to national trends. Nonetheless, during the period of 1979-1997, Albuquerque outpaced national trends in private employment growth.

Rapid job growth, however, did not convert to an equally rapid earnings growth.

Rapid job growth, however, did not convert to an equally rapid earnings growth. For example, during the 80s, the period of Albuquerque's fastest private employment growth (3.6%), real average earnings dipped 0.3%. From 1989-1997, when employment growth slowed to 2.2% annually, earnings rose to 0.9% annually, still lower than the rate of job growth. While the number of jobs increased, wages increased at a slower rate than national averages (4% locally compared to 12%). Since 1980, average earnings per job have not kept pace with national trends. Earnings gaps increase when Bernalillo County is compared to other metropolitan regions nationwide.

Services sector jobs jumped from being 33% of jobs in 1980, to 42% of all jobs in 1997. During a comparable period, other sectors remained either constant or declined in their share of jobs. Trade, both retail and wholesale, declined from 29.6% of jobs in 1980, to 27.7% in 1997. Of private sector employment gains from 1980-1997, 4% were in manufacturing. In 1980, manufacturing jobs were 10% of the total jobs but slipped to 7.5% in 1997. Public sector employment shrunk its proportion of employment.

Because Albuquerque has not historically had a strong manufacturing sector compared to other large cities, it was not as hard hit during the 1980s when manufacturing employment declined in the United States. Most new growth in manufacturing is due to an increase in "high tech" sectors. The opening or closing of a new facility, however, can drastically affect changes in manufacturing employment. Wages in manufacturing are higher than in other sectors, however, they are lower than national averages, 17% lower in 1997.

Employment in "teleservices" most notably, call centers, is rapidly growing in the local economy, with 8900 such jobs in 1999 reported by the New Mexico Department of Labor in the Albuquerque area. The hourly rates

for these jobs, while comparable to other similar jobs in other sectors, are considerably lower than the already comparably low average hourly rate of \$14.64 in manufacturing. Further analysis of telemarketing jobs involves assessing the extent to which they are full or part time benefits, job security, turnover rates, and possibilities for extra pay or advancement. Rates of educational attainment do not explain gaps in earnings in comparison to national figures since educational attainment is not lower than in the U.S. as a whole. Similarly, a lower rate of unemployment in the area does not explain the earnings gap. Even within the Southwest region, Bernalillo County private sector earnings ranks lower than in surrounding states. The reasons for lower earnings likely include the low rates of unionization and the history of institutional discrimination among Hispanic and Native American groups.

When comparing job growth to income growth, during periods of job growth, "the poorest households lost income."

Increases in unearned income e.g. transfer payments and investment income, contributed to some increases in total personal income. Household income, however, did not reflect increases in either the 1980s or 1990s, although some households did better than others. The households with the lowest income, lost 2.5% of its income through the 1980s. Nationally, this same group increased their income by 4.1%. Figures further demonstrate that the household incomes of upper income groups increased 7.5 times more than 20% of the lowest income households. When comparing job growth to income growth, the above statistics demonstrate that during periods of job growth, "the poorest households lost income."

Controlling for race or geographic area could provide more revelations on income distribution. In other parts of the Bernalillo County, the 1990 per capita income is as low as \$7,941 with average annual unemployment rates of 5.5% as compared to the Bernalillo County unemployment rate of 3.2% in the year 2000. 23 percent of households in this geographic area live below the poverty level, while 11 percent of households with children under the age of five are below the poverty level (U.S. Census 1990). This geographic area has high rates of transfer payments, underemployment, and unemployed workers not actively seeking work and therefore not represented in unemployment figures.³

Declines in economic activity have affected the municipal budget in recent years, reducing its revenues and causing budget shortfalls. In fiscal 1998, the budget shortfall by midyear was \$5.9 million dollars. Through measures such as layoffs, hiring freezes and cutbacks, the city reduced its shortfall to \$2.1 million by the end of the fiscal year. Though the city has earned more favorable bond ratings in recent years, budget shortfalls continue to be a problem as recently as this past fiscal year. Gross receipts

taxes are a major source of revenue for the City, representing as much as 64% of general fund sources. ⁴

As an economic center in the state, Albuquerque hosts 40% of the labor force and 25% of its population. A recent surge in housing construction, primarily in the range of \$80,000 - 100,000, has been on the fringes of the city. While this suggests increases in investment, it is still the case that Albuquerque does not have a large sum of venture capital circulating through its economy. The cost of living in Albuquerque has increased in recent years, and is comparable to Phoenix and cities in the region.

Trends in Current Economic Development Strategies

The current economic development strategies are reflected in several documents: *Writing the Community's Blueprint for Economic Vitality* (June 1994), the *Economic Vitality Action Plan*, Office of Economic Development (August 1997), *The Next Generation Economy Initiative: Harnessing Advantages to Build a 21st Century "Technology Plus" Economy* (December 2000), Office of Economic Development *Report to the Transition Team* (October 2001) and *The Economic Development Transition Team Report* to Mayor Chavez (November 2001).

In 1995 both a City Council resolution and a Bernalillo County Resolution defined economic vitality as "an active process of developing a sustainable economy that conserves our natural resources, environment, natural beauty and cultural diversity in order to achieve an optimal way of life for everyone within the Albuquerque region." A broad base of organizations in the "Albuquerque Partnership for Community Economic Development" and the "Economic Strategy Committee" developed the vision for economic vitality.

The vitality plan called for an involvement of neighborhood associations and community organizations, a reinvestment of wealth back into communities, full participation of the economy by "all citizens,"

The vision called for a "concerted and coordinated economic development program," and public and private sector coordination. Among its many recommendations, the vitality plan called for an involvement of neighborhood associations and community organizations, a reinvestment of wealth back into communities, full participation of the economy by "all citizens," and the "attraction, development and retention [and expansion] of responsible and responsive businesses [including local]" Three major strategies addressed the need to assist those businesses that created jobs with higher wages and benefit packages; the importance of providing technical assistance to community based organizations to increase their capacity to do economic development; and "achieve community economic growth rates

which are compatible with the ability of the public sector to provide associated services and infrastructures.

The “overarching goal” of The Next Generation Economy Initiative “is to strengthen Central New Mexico’s ability to create more high quality, private sector jobs in more competitive industries.” Authors predict that the federal government will not continue to spend in the region the way it has in the past and believe that the region should not rely on the public sector for job creation. Therefore, the NGEI goals are to create a “diversified and dynamic economy” that can more effectively compete in global and domestic markets. The “path to higher incomes and higher standards of living” comes as a result of “a more prosperous economy.”

The actors of the NGE Initiative are not named in the report, although Albuquerque Economic Development (AED) is named as a source of data. It appears that the involvement was not as broadly participatory as the Economic Vitality Visioning Process. Nonetheless, the new approach for economic development calls for “rifle shots” rather than “shotgun blasts” in the approach for industrial recruitment. Specifically, the plan calls for economic development to be focused on “developing a few specialized businesses within clusters of economic activity.” The report also calls for public institutions such as local government, the University of New Mexico, and Sandia National Laboratories to “support the region’s private sector.”

The six clusters identified include: electronics, artisan manufacturing, tourism, biomedical and biotechnology products, optics and photonics, and information technology and software. The NGEI identifies three major strategy elements: cluster action initiatives, crosscutting flagship initiatives and implementation. Each initiative will contain a set of objectives and milestones.

The two reports to the Mayor’s transition team in fall 2001 also address economic development goals. The Office of Economic Development defines its as working “to create, diversity, and enhance job growth and business development and stability.” Its report to the transition team describes some of the priorities of the OED as well as a list of its accomplishments. Described in this list is its handling of Industrial Revenue Bond projects which results in job creation. The office has also “improved the quality” of the fiscal impact analysis and added corporate involvement in the community as a criteria for issuing a bond. In the last three to four years, OED has increased some of its monitoring of IRB recipients and now requests an annual report.

The OED has a close working relationship with Albuquerque Economic Development (AED), a non-governmental organization, to add new jobs. Companies that they have recruited include Eclipse Aviation, Gap Sennheiser, and John Hancock. OED has also contracted with AED to provide information on industry clusters. The OED, partnering with Sandia Science and Technology Park is working to promote high tech jobs. OED has a list of accomplishments related to international trade.

The Economic Development Transition Team report to Mayor Chavez contains recommendations for the Mayor to consider. First, is the request to develop a “clear strategy” with an articulation of “what we want and what we do not want.” In addition to suggesting support for the Office of Economic Development, the report calls for the need to develop measures of success and the need for both reporting and monitoring progress. The team also requests that all city agencies be informed of their economic development goals and be asked to support them. In addition, they recommend educating city council, the press/media, and interest groups about the goals and “how they fit in the strategy.”

The Economic Development Transition Team also called for an Economic Development Summit with “key leaders of the primary business and economic development groups.” The team calls for the use of Executive Orders to obtain city agency accountability in the area of economic development and to form an Economic Development Priority Council to improve internal communication. The team supports the NGIA and their focus on clusters. They call for the IRB process to be clarified that “IRBs do not involve city (taxpayer) funds and that instead companies with strong balance sheets arrange private financing (often self financing).”

City of Albuquerque Industrial Revenue Bond Program

In essence, the IRB is used as an incentive to recruit (and sometimes retain) industry to Albuquerque.

There is an issue with respect to whether IRBs “involve tax payer funds” and whether the concerns people raise about IRBs can be addressed by clarifying the nature of the IRB contract. Just what is an Industrial Revenue Bond and how is it tied to economic development? In essence, the IRB is used as an incentive to recruit (and sometimes retain) industry to Albuquerque. Industrial recruitment is a central feature of both the State and the City’ economic development practice. “The original primary concept behind industrial revenue bonds was to enable local government to provide a mechanism for low-cost financing for private parties to create industrial facilities that would enhance employment in the locality.”⁵

Through the Industrial Bond contract, the city assumes ownership of the property on which a company will locate or expand its manufacturing facility. The facility is then publicly owned and not subject to property tax.

Through the Industrial Bond contract, the city assumes ownership of the property on which a company will locate or expand its manufacturing facility. The facility is then publicly owned and not subject to property tax. Attorneys are necessary for the transfer of the property. The city issues a bond, or obligation, which is payable from proceeds that it receives from the corporation that leases the facility that is financed by the bond. The lease payments are repayments of the bond. Very often, it is a financial arm of the corporation that finances the bond in the first place. Rather than directly provide capital to the corporation for expansion, it can save money on interest by directing the loan through the municipality.

Since the property is titled to the City, it can also use its federal tax-exempt status to abate gross receipts tax on equipment purchased by the corporation, who is now purchasing the equipment as agent for the city. Further, local governments are exempt from paying interest on the bonds. Therefore, a third and major benefit for the corporation of the IRBs is the ability to obtain financing for the expansion at a low rate of interest. Congress has limited the use of bonds for this purpose by restricting the types of projects for which these bonds can be used. Manufacturing projects are allowed, for example, but retail projects are not. Educational institutions may obtain an IRB, not for the tax break because they already get this as an educational institution, but for the ability to finance improvements at a considerably lower interest rate.

A term of the bond is set, which also means the term of the ownership of the property by the city. The IRB term was generally 30 years, but more recently was reduced to 20 years. After the term of the bond, the ownership of the property is sold back to the company for a "nominal cost" and the property is supposed to return to the tax rolls.

The complexity of the IRB contract requires the involvement of bond attorneys representing the city. Another condition for the IRB is the availability of someone willing to finance the bond. Finally, the company must be able and willing to comply with the city's process for receiving the IRB that includes a project plan and coming before both the Albuquerque Development Commission and the City Council.

The Office of Economic Development is the primary city agency that coordinates the application and approval process for the issuance of bonds. Typically, the IRB process begins with Albuquerque Economic Development who either contacts or is contacted by a company interested in receiving an IRB. A contact is then made with the OED who provides the corporation with an *IRB Developer's Packet*.

The Packet provides direction to the applicant on the process of approval, notice requirements, and plan format.

The *Packet* provides direction to the applicant on the process of approval, notice requirements, and plan format. The OED will apply informal criteria to the proposed project. The first criteria is whether the proposed project meets legal restrictions, (e.g. the capital value of the facility must be less than \$10 million, although there are some exceptions). A second important consideration is whether the company itself is in solid financial standing and whether it has the power to obtain financing for the bond. Finally, other informal criteria that OED may apply include whether the project will result in high water use or pollution. Once the company receives the initial go-ahead, it is asked to submit a project plan

Each project plan must contain the description of their proposed project, the number and type of new jobs to be created, the estimate on what percentage of jobs will be filled by people who are residents of the city at the time of submittal, description of what is being produced. The project plan must also include the process and the potential relocation of individuals or businesses. In addition, the proposal articulates the use and condition of the site being proposed, and the current assessed value of the site and the estimate of the site's value when the project is completed.

The project plan, which should be detailed, must also provide information on the maximum amount of the bond that is sought. Zoning information on the site is required, both current and proposed. The company must also provide a construction schedule. A feasibility assessment is necessary in which the company demonstrates how the project will generate revenue and be "self liquidating." The 1985 City Council Resolution which defines the project plans also request that the company assess its project in terms of its potential competition with and impact on existing industry and commerce both during the construction phase and afterwards.

Details on the financial aspects of the project are required to be part of the project plan. For example, the total dollar amount of facility improvements, a statement of when the bonds will be issued, and resumes of personnel involved including the architect, contractor and leasing agent. A site plan must be submitted along with a management plan and a map of the site. The company must also provide information requested by the Albuquerque Development Commission.

According to the resolution, the Mayor reviews all bond projects. On the first Monday of the month that the ADC will hear the proposal, the company must submit the project plan. It must also provide legal notification "not less than seven days" before the ADC meeting. After it goes to ADC for review, it goes to the City Council.

Part II. Stakeholder Perspectives

Economic Development Professionals

Stakeholder perspectives are the essence of this portion of the IRB policy review. The first questions that stakeholders answered had to do with the economic objectives that they believe City Government and the economic development professionals *should* have for the community, contrasted with the objectives they believe these entities *do* have. The following sets of answer were the result. Language to describe the perspectives is taken directly from the stakeholders themselves through interviews.

Community stakeholders see the goals and objectives of economic development professionals to be focused on job creation through recruitment of companies. They are perceived as doing recruitment well but not retention or expansion. Specialists, say some, are focused too much on recruitment without looking at or understanding alternatives to their approach. Stakeholder clearly understand that job generation is a goal of economic development organizations but that the result appears to be short term jobs at any cost and with little or no regard to the quality or type of jobs. Others say that there is insufficient clarity of their objectives and that they are in a "state of disarray."

Some community stakeholders suggested that local economic development specialists have agendas apart from the interests of the overall community.

Economic development is seen as "driven by" and "serving" the business community, but not the community as a whole. The approach, community stakeholders say, is "outdated" - bring in companies at any cost. The result is short-term goals with long-term costs. The approach to economic development is characterized as "Smokestack chasing," "Corporate Welfare" and "Schizophrenic." We give away the store." Several people mentioned that they were concerned about the "Self named spokespeople for the business community." "Economic development professionals are in it to make money." Some community stakeholders suggested that local economic development specialists have agendas apart from the interests of the overall community.

On their views of Albuquerque's approach to economic development, community stakeholders say that "business prompts the economy, but if companies can't live up to commitments, they should be made accountable - consumers are." "We get annual glossy reports from companies, but what is really being done?" Community stakeholders made numerous comments about the ways that consumers are made accountable while companies are not.

On the question regarding Albuquerque's cost competitiveness, stakeholders made several references to the cost of labor being a factor for

Community stakeholders fear that the assets of the community are not built upon to create an economic development strategy, but rather an economic development strategy is created that destroys those very assets.

competitiveness: We compete by lowering costs of doing business, e.g. lower wages. We have “third world” business appeal. Others said, we don’t have good education structures, under-funded. We have good labor and a “relatively high level of employee capability.

Others focused on Albuquerque being competitive because “we give it away.” We provide easy access to tax incentives for outside corporations and property taxes are relatively low. Stakeholders also provided a list of Albuquerque’s amenities that they viewed as contributing to Albuquerque’s cost competitiveness. Good community with rich cultural heritage, good people. Good entertainment, climate, city attractions, UNM, a technology base, market accessibility, a large metro area surrounded by great tourist sites, a multiple complex of diverse communities. Community stakeholders fear that the assets of the community are not built upon to create an economic development strategy, but rather an economic development strategy is created that destroys those very assets. There are enough positive aspects of this community, they argue, to create an appealing and competitive enough climate.

Problems in the city that may affect its competitiveness include crime, drug use, water issues and poor planning. It is difficult to put together competitive package say some and Albuquerque needs better marketing of itself.

Yet another stakeholder said, “Cost competitiveness shouldn’t be the question - the question should be about livability. Stakeholder comments seem to reflect this perspective. As such, there was an overwhelming consensus among stakeholders that the economic development goal of the city and economic development professionals should not be just about job generation, but about the quality and impact of those jobs. Are companies paying a “livable wage?” Are there good benefits packages? Are there opportunities for learning and skill building in the jobs? Do the jobs provide opportunities for advancement or are they dead-end entry level jobs? “Livability” was a far more salient issue for stakeholders than was “competitiveness.” This may be particularly true since many stakeholders are not experiencing positive impacts of “competitiveness” in indicators like increased earnings or household wealth.

Referring to the current approach to economic development, stakeholders had an array of comments about jobs and employment conditions in the Albuquerque region:

- Many jobs pay below livable wages

- There is a big difference between minimum wage and livable wage
- Armies of temporary workers is a way to keep payrolls down
- Local people not necessarily being employed with corporations coming from out of state
- Jobs are not higher paying jobs for local people
- Higher paying jobs go to imported labor
- Construction contractors are often from out of state and bring with them their own labor force, particularly skilled labor
- Construction contractors don't pay state tax, don't support roads.
- We are low wage state, other cities in the region have passed livable wage ordinances (e.g. Denver, Tucson, San Antonio, Dallas)
- When companies don't pay livable wage, it doesn't allow labor to develop itself

Economic Development Goals

Stakeholder concerns have to do with what the corporation leaves behind. Will the community be a stronger, better place?

Questions of livability extend beyond the generation of high quality jobs. Stakeholders include in their concepts of economic development, values related to culture, the wise use of natural and human resources, serving neighborhoods, and a stable and strong economy. Recognizing that after a corporation leaves, the people of New Mexico remain, stakeholder concerns have to do with what the corporation leaves behind. Will the community be a stronger, better place? Will its traditional, family based culture be intact? Will the natural resources of the regional be available for future use? Stakeholders presented a range of characteristics of good economic development.

While there may be some economic developers whose primary focus is on creating profits or generating capital, community stakeholders are adamant that economic development must be based on "cultural, social, and political realities of the communities in which the economic development occurs." In an approach that begins with the assets of the community, community stakeholders specified their wish that economic development in Albuquerque be based on "what resources are available" with "the least amount of negative impact." Many community stakeholders said, for example, they want economic activity to be "sustainable" encouraging low water usage and non-polluting industries.

Since "people stay after corporations leave," numerous stakeholders expressed the perspective connecting economic development and its impact on the quality of community. Economic development, therefore should:

- Build on local industries rooted in the community
- Build upon local infrastructure and culture
- Serve neighborhoods, not “Albuquerque”
- Reflect the fundamental importance to us that the first idea of economic development is local, local, local
- Emphasize local industry
- Build internal economy

At the same time, community stakeholders desire economic development that will create spin-off activity, stimulate the economy, be stable, ensure the circulation of dollars, and result in long term growth. Increasing per capita income is important as is raising the standard of living.

As a citizenry, stakeholders indicated that they had expectations of economic development to contribute to livability factors, quality of life, and their active participation in the economy. The economic activity they desire has a number of additional characteristics:

- Allows people to participate as consumers
- Supports small businesses, e.g. technical assistance, incentives
- Supports local home grown businesses
- Provides proximity of residence to work
- Focuses on creating viable neighborhoods with businesses and places to work
- Provides financial backing for local industry
- Results in an improved education system

Stakeholders want good jobs. “Any job is not necessarily a good job - we don’t want jobs for the sake of jobs.” When asked about economic development, these are the kinds of job goals that stakeholders describe:

- “Dignified” jobs with livable wages, especially for working families in the community
- Jobs with benefits
- Jobs with permanent (i.e. not temporary) employment
- Employment for local citizens
- Jobs with opportunities for advancement
- Employment so that kids don’t have to leave the state
- Jobs that produce a product or service to the community
- Jobs that utilize licensed/certified workers
- Trained labor force
- Jobs that increase tax base of community

Economic development, from the point of view of stakeholders, encompasses a wide range of considerations for an effective economic development strategy. They also want to be part of decision making that determines economic development directions.

In talking about economic development, community stakeholders spoke about a sense of tradition for cultures that are centuries old. Without ignoring the realities of an urban area, stakeholders did not want to lose their “sense of place” and see the cultural landscape destroyed by a lack of conscientious development. In fact, many argued, these are assets of the community that should be built upon. “We need employment and economic development that builds on family based culture.” Some community stakeholders also spoke about the importance of families and wanted more of their children to be able to obtain jobs without having to leave the area.

Tax Structure, Revenue, and IRBs

“Not enough people are involved in the decision making, the IRBs are not going to the right people, we are giving away too much, and there is no accountability.”

There was not a single stakeholder interviewed who believed that the City was providing cash from its coffers to the corporation receiving the industrial revenue bond. Nor were there stakeholders who argued with doing away with the IRB program. Essentially, stakeholders ask the questions: “Who is deciding what? Who is getting and how? What are the measures of accountability?” One stakeholder summarized the answer: “Not enough people are involved in the decision making, the IRBs are not going to the right people, we are giving away too much, and there is no accountability.”

The range of opinions and questions by stakeholders on the current IRB policy are listed:

- Are tax breaks a “cost” to the municipality? Is this being adequately measured?
- Is the city getting enough of a “return” on this investment?
- The burden of supporting public services is shifting to homeowners and smaller firms with less clout
- IRBs result in an unfair taxation policy
- Tax exemptions lessens the ability of the municipality to meet additional infrastructure needs
- There is virtually no accountability by companies
- IRB policy helps larger corporations
- We can’t build projects that don’t respect neighborhoods
- Companies receive IRBs with promise of jobs, then lay off workers anyway

Stakeholders are not arguing for the eradication of the IRB program, but rather for its more selective use, with an open process, and ways that do not so quickly sell Albuquerque or its people short.

- City gives away its assets. City of Albuquerque really needs to learn from other cities how to do revitalization and make smarter deals
- What are the social costs of IRBs?
- Companies that are awarded IRBs need to have a better audit trail

Again, when asked whether IRB assistance should have been provided to companies, stakeholders are not arguing for the eradication of the IRB program, but rather for its more selective use, with an open process, and ways that do not so quickly sell Albuquerque or its people short. Many said, for example, that in some cases, the assistance should have been provided, but in other cases not. Many clearly remember the case of one company that received an IRB and then left behind an unremediated highly toxic site.

While the Office of Economic Development clearly filters many of the requests for IRBs, many still believe that there is not enough scrutiny of applicants and that we do not easily turn down companies brought to the city by economic development organizations. "We have to be able to say no." Many believe that companies who "do not need" the incentives should not receive them. Call centers were nearly universally regarded as not good recipients of IRBs, particularly since they don't produce anything and because they don't provide good paying jobs with opportunities for training or advancements. Even though many recognized that some of these jobs might be good for those workers who need entry level jobs, that promoting this industry was not a good approach to economic development.

IRBs to local recipients was viewed positively although many expressed the opinion that even local companies should attempt to pay higher wages with benefits. Philips was a frequently mentioned example of a company that should not have received the second IRB. "Philips should not have received an IRB - they did not abide by the conditions of the first IRB and then they received a second - they took the money and ran." Although Philips "produces something" and "has provided some work for pipe fitters, sheet metal and electrical workers," "they did not meet their commitments; commitments needed to be enforced."

Opinions on Philips were fueled by the layoff of workers after they received their second IRB. "We already had let them slide in their commitment." As one stakeholder said, "Philips Semiconductor is a best example. An IRB was issued in 1995 for \$200 million. The guarantee from Philips was that they would increase their workforce by over 500 high-tech, high paying jobs. In 2000, when Philips requested a \$400 million IRB (the largest IRB issued by the City of Albuquerque), after cutting their workforce by over 500, and the cost-benefit analysis demonstrated it was of more benefit to the city

to not issue this incentives, the city still issued the IRB.” Other noted that in Holland, Philips is unionized, but isn’t here in Albuquerque, thus suggesting that the company may, when asked, be more amenable to meeting the needs of local labor.

Stakeholders recognized that for some companies, the IRB might be “the only means to get them here.” This is referred to by economic development specialists as a situation of “but for.” In other words, “but for” the IRB, the company would not locate or expand in Albuquerque. While stakeholders do not necessarily oppose this perspective, they do raise questions about how one knows for certain that the company would not locate here without the IRB but is using this as leverage to obtain the tax and financing incentives. Secondly, even under a “but for” situation, stakeholders are insistent on the accountability and do not want to feel “hostage” to a company’s interests at the expense of the community’s interests.

Stakeholders are clear that they do not want the City to make excessive commitments to the companies without either the guarantee of something in return and without the measures of accountability. They express concern for the companies that made commitments, but did not fulfill them, e.g. companies that obtain an IRB to expand their workforce and then do not. “If a company receives consideration from community, then there needs to be some provision for pay back.”

Stakeholders frequently raised the issue of how decisions are made around IRBs. Generally, people feel that “The brokering of deals is not done in an up front way so that community can have a say so in getting what we want”

Perceived Impacts of IRBs

If IRBs are issued to stimulate economic development, then it is important to obtain from stakeholders their perceptions of the impacts of IRBs. Since job generation is the primary stated goal of using IRBs as an economic development tool, stakeholder perceptions of IRB impacts on job generation are particularly important. Community stakeholders are skeptical of the claims that IRBs generate good jobs for Albuquerque.

Generally, stakeholders view the majority of jobs created by IRBs as low wage and low union jobs that do not provide a positive impact on the overall wages or skill development of workers in the area. These jobs are not providing “a sense of security” to Albuquerque’s workforce. Instead,

Generally, stakeholders view the majority of jobs created by IRBs as low wage and low union jobs that do not provide a positive impact on the overall wages or skill development of workers in the area.

stakeholders fear that these jobs are “locking the city into low wage jobs and offsetting a lackluster educational system’ with in plant training.”

In the case of better paying jobs, community stakeholders argue that the beneficiaries are not local workers. While it is the case that “some companies use local New Mexico contractors and firms” they argue that a procurement process is still needed that will “guarantee bidding to allow for local businesses to benefit.”

Though they say that there has been “some job creation, some income into the state, and some stabilizing of the economy,” the stakeholders argue that the increased job growth is not accompanied by increased income growth. Statistics on Albuquerque’s economy bear out this claim. Instead stakeholders perceive a “real cost without real income growth.”

Community stakeholders point out that “definitive numbers are not available to demonstrate positive impact on the economy, only projections based on promised job creation.” Companies are not meeting their own hiring goals. Stakeholders call for improved fiscal impact models and want more economic analysis - after the fact. What tax breaks have been given, what jobs have been created? How do these tax breaks impact the local economy and the community?

In addition to inadequate evidence of the positive impact of IRBs on Albuquerque’s economy, stakeholders are additionally concerned about the absence of accountability with no assurance that companies are living up to what they say. Instead, stakeholders see a lack of commitment from companies to be here for the long term. There “may be some immediate, small gains but with a gamble for long term.” Stakeholders fear the negative environmental impacts, the drain on local resources, and the impact on the pace and type of urban growth. Stakeholders feel that they are “not getting money’s worth and companies and local developers are getting the better end.”

Stakeholders also raised concern that several properties that are not in production, are still off the tax roles. There is concern that IRB’s are in effect even after company is not operating, although properties are not being removed from tax exempt status in a timely manner. The IRB program means companies can obtain tax breaks. Some economic development specialists claim that the municipality is not really losing tax money because if the companies weren’t here, there would be no payment of taxes anyway.

Community stakeholders feel they are subsidizing corporations, which benefits the corporations and local developers, but not the community as a whole.

Community stakeholders argue that there is an impact on the tax

structure nonetheless, shifting the burden of who pays taxes and impacting the mill levy and tax formula. The result is that community stakeholders feel they are subsidizing corporations, which benefits the corporations and local developers, but not the community as a whole.

The Process of Decision-making

The citizenry sees IRB deals as “brokered in the back room” with virtually no opportunity for participation, even by its own elected officials.

Stakeholders do not view the process of decision making around IRBs as “democratic.” In some ways, this is the biggest issue facing the City, how to create the space for its citizens to be a part of decisions affecting their livelihoods and quality of life? Community stakeholders emphatically view the IRB process as “tainted, run by those with a vested interest, e.g. lead economic development agencies and developers.” The citizenry sees IRB deals as “brokered in the back room” with virtually no opportunity for participation, even by its own elected officials.

Community stakeholders assert that they “are at the whim of whoever is brokering the deal” and because this is done “outside the public eye,” the brokers can say any number of things, including “that they can get employees at lower wages.” Some stakeholders provided anecdotes of companies they knew had initially agreed to paying higher wages but were discouraged from doing so by economic development brokers who convinced them it was not necessary to provide better wages.

Community stakeholders ask, “Who is at the table, what deals and promises are being made?” The process of IRB is viewed as “secret,” often negotiated by economic development organizations, sometimes with the mayor’s office, but not with either the public or its representatives. Stakeholders object to a process they feel is “decided by too few people” and largely decided before it reaches the public process. Three days (or even ten-day notice) to the public is viewed by many as inadequate because by that time, commitments have already been made to the companies.

Stakeholders want to see more public involvement much earlier in the process. “Yes, there are two or three meetings where people can speak for 2-3 minutes, by that time, officials have their minds made up, or are in a position to have to vote yes because the process is so far down the road.” Another stakeholder said, “We are constantly told by the commission that our input is too late in the process, that the city has already made a commitment to the company and that we need to get involved earlier. How do we do this? This is a question of access.” Community needs a minimum of 60 days notification when company expresses interest in IRB. The ensuing

process should allow for open negotiations, with more stakeholders at the table including labor and knowledge of the conditions placed on IRB recipients.

Several assert that it is local developers and their representatives that are the force behind economic development policy in the city.

Community stakeholders view the process surrounding IRB deals to allow only for a narrow range of actors. They ask for example, "Are there representatives from labor on the review boards?" Citizens speak of their perception that "you have to have access to certain political players in order to make the system work for you." In many cases, people could name who they view those players to be. Several assert that it is local developers and their representatives that are the force behind economic development policy in the city. As such, "citizen input is deemed less valuable.".... "...No real forum exists to incorporate community input."

Community stakeholders reject the notion of confidentiality and that they are not entitled to "full and open disclosure." "We are the taxpayers, we need to know what is going on, there is the assumption that economic development people know what they are doing." The application process, they insist, should be done in the public eye, but currently is not. "Currently, public involvement is minimal, disclosure non-existent and general communication lacking." Community stakeholder point out that even "other affected governments have no input" and to a large degree local elected officials are placed in a position by local developers to support something they have not adequately reviewed in light of the larger municipal considerations.

As an alternative, community stakeholders would like to see the city actively encouraging people to know more about economics and economic development.

As an alternative, community stakeholders would like to see the city actively encouraging people to know more about economics and economic development. They also want to see better communication between city economic development agencies, taxation authorities, and other local government agencies. Stakeholders call for a "commission that is really representative with real authority." The Albuquerque Development Commission needs a more clearly defined role with power. Others suggested an inter-government agency to monitor IRB compliance and/or a community board comparable to a CDBG board. The rules of the game, say stakeholders, should be clear and open.

Part III. Stakeholder Recommendations

The city should view itself more positively, they feel, and meet corporations from a position of strength rather than desperation.

Worthy IRB Recipients and the Conditions under which IRBs Should Be Issued

As indicated earlier in this report, stakeholders did not argue for the elimination of the City's Industrial Revenue Bond Policy. Rather, their issues essentially revolved around the conditions under which IRBs should be issued. In other words, if the City is going to enter into an agreement with a corporation that results in the corporation receiving benefits, then the community believes it has a stake and is therefore entitled to have its interests represented. They believe that as consumers and as workers they have to be accountable. In turn, they believe that corporations should also be subject to being held accountable for doing what they say they will. Community stakeholders are concerned that the City makes it too easy for corporations by not expecting more in return for what we provide them. The city should view itself more positively, they feel, and meet corporations from a position of strength rather than desperation.

As a way to determine stakeholder sentiments on the conditions of IRB issuance, they answered a series of questions about the worthiness or unworthiness of IRB recipients and the conditions for receiving or not receiving IRBs. In addition, stakeholders provided opinions on ways to improve IRBs. These answers provide the basis for criteria that the city can apply when selecting corporations for IRBs.

Community stakeholders specified the kinds of companies or projects they consider "unworthy recipients" of the City's Industrial Revenue Bond benefits.

- Low wage, entry level
- Incentives will not be made back by increased economic activity and act simply as subsidies for the particular business
- Companies that pay less than livable wages
- Companies that pollute
- Companies that would come here anyway
- Companies that come here in search of low wage base or because they think they don't have to pay high wages
- Companies that bring in their work force from other states
- Companies that use excessive water
- Companies that lower prices until competition is gone then raise prices
- Companies that shift all of their profits out of state
- Call centers
- Companies that want to expand but haven't met their own stated goals for job generation

- Companies that compete with local vendors
- Companies just looking for “elastic work force”

In addition to indicating what kinds of companies or projects they do not want to see encouraged to come to Albuquerque, community stakeholders indicated what kind of projects or companies that they would prefer. In the area of job development stakeholders want the following:

- Companies that hire local people
- Companies that have the potential of encouraging good paying jobs
- Companies that provide opportunities for growth and advancement for local workers
- Local company that wants to expand and pays better than average wages
- Companies that will provide jobs that require some skill level
- Companies that hire unionized workers
- Companies willing to sign neutrality agreements with unions
- Companies that provide living wage, pensions, and health benefits
- Companies that provide training and opportunities for advancement
- Companies that will use local products and local people with good management

With respect to corporate citizenship, community stakeholders want companies that:

- Give back to community
- Show interest in being part of the community
- Commit to staying in the community
- Do business with local vendors
- Require secondary contracting from local companies
- Are socially responsible and responsive
- Non polluting and environmentally responsible

Regarding economic development, stakeholders want companies or projects that are compatible with their economic development goals.

- Local companies that build on cultural assets of New Mexico, such as cottage industries
- Local small businesses
- Innovations in manufacturing, e.g. Cooperative development
- High tech related that meets other criteria
- Industries that will export goods and import capital
- Companies/projects that build local economy

None of the community stakeholders interviewed argued for the elimination of the city's Industrial Revenue Bond program.

- Where cost benefit analysis demonstrates incentives will be off-set by increased economic activity
- Acequia or grazing associations

None of the community stakeholders interviewed argued for the elimination of the city's Industrial Revenue Bond program. They did, however, strongly assert that the present conditions for issuing the benefits were inadequate. Conditions where there are "no conditions, no control, and no accountability" need to be remedied. Instead, community stakeholders want IRBs to be issued under the following conditions.

Regarding jobs and economic development, IRBs should be issued:

- As part of a coordinated, long term economic development strategy developed with widespread participation
- To local/small businesses
- To good industries that provide good wages and have good labor relations
- When companies pay livable wages
- When companies hire locally and do not import their labor force
- When companies supply training, pension, and health insurance
- When companies hire from groups that are under served or underutilized
- To industries identified in long term economic development strategies
- When the company has a history of providing its employees benefits and good wages

Regarding accountability, IRBs should be issued with:

- Accountability measures
- Benchmarks for performance measurements
- Reporting requirements
- No deals under the table, behind doors
- Clawback agreements in place
- Penalties for violation of agreements
- Companies "locked in" for a period of time
- Accurate assessments of actual costs and impacts
- Audit trails established
- Demonstrated record of keeping commitments
- A contingency fund established (1% of profits are placed in fund)
- Due diligence on the company, e.g. what kind of corporate citizen were they in their previous communities in terms of treatment of employees, the environment, etc.

Regarding corporate citizenship, IRBs are acceptable when the company is:

- Not draining existing resources, e.g. water
- Environmentally sensitive
- Contributing to the community
- Providing programs that “give back” to the community
- Selecting appropriate locations
- Locating in area that will serve the neighborhood and needs it the most
- Leaving the community in better shape after the company is there
- Producing a product that will benefit the community

Conversely, stakeholders specified the conditions under which IRBs should not be awarded. They insist that IRBs not be awarded where there are not full, open disclosure with information available on company investments and payments to state and local governments over the term of the IRB. IRBs should not be given if negotiations are not made with corporations that have clawback measures and penalties for any agreements that might be broken, e.g. not providing the number of jobs promised.

In the view of many stakeholders, corporations should not receive multiples IRBs particularly those who have not fulfilled previous commitments. Since stakeholders want long term stability for their economy and jobs, they discourage IRBs be given to companies with a high “flight risk,” which is something that can be determined by examining their previous history in other communities. Companies that have been a “bad neighbor” in other communities are not seen as worthy recipients of IRBs. When companies have gone to other communities and been turned down or when a company has a record of pollution violations they should be denied an IRB.

Situations where companies do not have an established financial history are seen as conditions to deny an IRB to a corporation. When the company is part of an industry with a poor forecast or when the company is financially marginal, they should not be eligible for special tax considerations. When a company is not in a good location and contributes to traffic problems is viewed by stakeholders as a sample of the kinds of design conditions that should be part of the consideration for corporate locations or expansion.

Community stakeholders assert that corporations that import their high wage labor, do not treat employees well, or come here looking for low wage employees need not apply. Unacceptable conditions for a company to receive an IRB includes paying “poverty wages” or paying less than HUD standards for low income households. When jobs do not provide opportunity

Community stakeholders assert that corporations that import their high wage labor, do not treat employees well, or come here looking for low wage employees need not apply.

for training and mobility, an IRB should not be issued. When the economic cost of the tax relief exceeds the economic benefit through jobs produced, then an IRB is not appropriate.

Criteria for Company Selection, Due Diligence, Reporting and Monitoring, and Accountability

Stakeholders want to know more about the corporations before they receive the tax benefits through a more elaborate process of due diligence.

When corporations do not meet their contractual obligations, community stakeholders want to see penalties specified up front.

Community stakeholders agree that the most effective use of IRBs requires criteria for eligibility and selection of companies to obtain an IRB. Stakeholders want to know more about the corporations before they receive the tax benefits through a more elaborate process of due diligence. Conditions should be placed on the IRB recipient during the negotiation and specified in the legal contracts. When corporations do not meet their contractual obligations, community stakeholders want to see penalties specified up front. In order to enforce compliance, reporting and monitoring is necessary but currently inadequate. Finally, community stakeholders desire an open IRB process with ample opportunity for community stakeholder interests to be incorporated. The following set of lists, demonstrates the depth of community stakeholder opinions.

Company Eligibility Requirements/Selection Criteria:

- Companies that will provide health care, training, and pension
- Corporations with environmental compliance/non polluting
- See list of conditions under which a company should be granted an IRB: pay livable wage with benefits, provide skills jobs with opportunities for training and advancement, environmentally sensitive and not high water users, committed to local community, and committed to use local suppliers
- Reduced cost process for local, home grown businesses
- Disclosure by companies of other sites they are considering
- Hold to same standard that consumers must meet e.g. from lenders or when they receive government funding
- Opportunity to employ first source hiring agreements with referral services

Due Diligence on Companies:

Community stakeholders believe that the process of evaluating companies beforehand is inadequate, even though many assume that it is done more systematically. Stakeholders argue that it is important to know a company's history in other communities before inviting them in to this one.

Stakeholders are concerned about the “corporations that go from state to state, have get rich quick schemes and then leave the state.” As part of a due diligence process, community stakeholders want the city to “do homework on these companies” and “scrutinize the record of what companies promise. Are they stable and viable? Did they leave contaminated sites behind?

- Need research on companies’ track records, e.g. fiscal health, relationships with employees, etc.
- Need indications of stability and viability
- Determine a long standing and tight portfolio
- We need to conduct research on the companies to ask why they are leaving the community they are in, what kind of operation did they conduct in the previous community, what kind of corporate citizen were they? How did they treat employees? Did they contaminate?
- Due diligence should be done long before the IRB comes before various bodies for a vote
- We want community citizenship from these corporations
- Look for company that is good model, identify a good model, and then court those kinds of businesses i.e. establish a model for the kind of companies we want to court, e.g. Ben and Jerry’s; Working Assets

Reporting, Monitoring, and Performance Measurement

According to some, the inadequate performance measurement is striking, “This is just bad business, how do you not assess whether your have gained from these deals?”

Stakeholders say, “Currently, there is no real monitoring and performance measurement.” The city needs to keep better records and provide full disclosure. Community members are particularly struck that other groups have to provide records and monitoring, e.g. labor, so should IRB recipients. “Yes, the economy may affect a company’s performance but nonetheless, if they don’t perform, they should not receive the benefits.” According to some, the inadequate performance measurement is striking, “This is just bad business, how do you not assess whether your have gained from these deals?” Many view asking the government to engage in bad business practice by not evaluating its own strategies as “astounding.” Instead, reporting, monitoring and performance measurement all needs to be improved. Providing the Office of Economic Development more capacity to do this would help.

- Set up good reliable way of getting figures
- Track corporate performance
- Set up quid pro quo, legally binding document
- If they say they are going to create 500 jobs, then hold them to it
- Provide oversight

- Need workplace performance plan broken into time frame
- Interview employees
- Need measures of performance as “corporate citizen”
- Conduct quarterly audit with someone physically going to company to see if they are in compliance
- Establish advisory board with local businesses, academics, non government, government, labor, and others
- Need accurate cost benefit analysis
- Need annual or bi-annual reports

IRB recipient compliance

“Currently there is no IRB recipient compliance. Once the IRBs are issued, the city walks away.” In order to have compliance, “clear, pre-set agreements” must be established in the bond documents. “Just like anyone else, companies needs consequences if they don’t meet their commitments.”

- Clawbacks
 - Clawbacks in place allows for better negotiating position (“because no penalty existed to hold Phillips accountable to their promises, we had no leverage at the bargaining table.”)
 - Abatement should be tied to job projections
 - Abatement should be tied to local hires
 - Regular reporting of job projections, purchases and environmental compliance
 - Regular reporting on Income Tax Payments, Investment Credit and expenditures
- Make it a priority to set up an oversight commission with real teeth
- Establish collateral, similar to what banks do, something they must “put up” before they obtain the IRB
- Establish an audit trail

Accountability Measures/Penalties for noncompliance:

The need for accountability of IRB recipients is probably the single most emphatic comment made by community stakeholders. “Currently, there is no accountability, there needs to be accountability.” Although some accountability measures were placed some of the more recent IRB contracts, the city has not yet established the practice of establishing penalties for non-compliance, including them in the bond documents, and then enforcing them. “There needs to be consequences if companies don’t live up to agreements.”

- If they say they are going to hire 150 workers and only hire 100, then they should be accountable for taxes commensurate with the difference

The city has not yet established the practice of establishing penalties for non-compliance, including them in the bond documents, and then enforcing them.

- Articulate a way to get back “when they rip us off”
- Impose fines
- Need some form of collateral
- Get the Attorney General involved•Improve how fiscal impact is conducted, how variables are measured
- Improve how fiscal impact is conducted, how variables are measured
- Improve how fiscal impact is conducted, how variables are measured

Part IV. Conclusions and
Recommendations
for Next Steps

Assessing Performance and Success of IRBs

Do the IRB incentives result in good economic development?

Do the IRB incentives result in good economic development? According to community stakeholders, they do not. To the extent that there are increases in the number of jobs, there are not increases in jobs that provide opportunities for advancement, pay livable wages, or supply adequate benefits. Economic data confirms that increases in jobs are not translating into higher wages or improved household wealth. The experience of community stakeholders is that higher paying jobs are not going to local workers while temporary workers keep wages down. Meanwhile the cost of living has increased during periods of job growth. It is this lack of visible positive impact that so significantly shapes community stakeholder opinion of the city's economic development policies and the of its primary incentive tool, the industrial revenue bond.

Industrial Revenue Bonds require complex legal contracts to enable the property exchange, the terms of repayment of the bonds, and other specifications. There are very few stakeholders who might understand, in detail, the exact nature of the legal terms of the documents. This does not preclude, however, the understanding of the essence of IRBs. Stakeholders are not under the impression that the City is providing cash payments to the corporations. They understand that the company is receiving the benefits of tax exemptions and most understand that IRBs provide an opportunity for financing at a lower interest rate. The city provides the opportunity for the company to receive a loan from the bond, which it then pays back in the form of lease payments to the City for the use of the property.

Are there hidden costs of industrial revenue bonds?

Corporations receive benefits in the form of tax exemptions and lower interest rates for construction or expansion projects. Many stakeholders refer to this as "corporate welfare" because they feel they are subsidizing corporate profit without proven benefits to the local labor force and its families. Such a position is not founded upon ignorance, contrary to the claims that they hold this opinion because they can not understand how IRBs are structured. IRB proponents argue that if the company did not locate or expand in Albuquerque, there would be no property taxes paid anyway, thus there is no actual loss of taxes. Any loss of taxes, they claim, are more than compensated by whatever gains there are from increased payrolls circulating through the economy including gross receipts and through income taxes paid on the new income. This raises several questions. Companies are only provided tax exemptions and low interest loans and not actual cash subsidies. Nonetheless, are there hidden costs of industrial revenue bonds? How effective are the current impact measures such as fiscal impact analyses? Can we devise better ways of measuring impacts?

Community stakeholders express concern that the fiscal impact analysis does not adequately consider the hidden impacts of tax abatements. For example, exempt properties are not part of the tax formula. There is a difference between market value and value of IRB that is not reflected in the formula. When tax exemptions are used extensively, the tax burden shifts.

Stakeholders are observing tax breaks for corporations but experiencing increases in their property taxes. Though increase in property taxes may have to do with upping the valuation to more closely match market value, stakeholders are still struck by the contrast of their tax commitments to those of corporations. Furthermore, current IRB structure favors companies with large capital investments. The cost benefit analyses being done do not consider these tax issues and broader indicators of costs.

Fiscal impact analysis, for example, bases its calculation of benefits on what the companies say will be the number of jobs created.

Generally, stakeholders do not have trust in the current approach to the analysis describing it as “faulty.” While this may not be an indictment of the primary economist who conducts the analyses, it is a cry for the economic model to make room for other considerations. Fiscal impact analysis, for example, bases its calculation of benefits on what the companies say will be the number of jobs created.

No further follow-up is conducted to see how many jobs were actually created or what is the actual economic output.

No further follow-up is conducted to see how many jobs were actually created or what is the actual economic output. Benefits are viewed as skewed and costs underrepresented, e.g. the cost to municipalities of providing the service needs created by the new facility or the cost of lost opportunities to generate revenue. The fiscal analysis is only done on a company at a time, no analysis of cumulative impact or impact over time.

Despite the sophisticated model that is used for the impact analysis, the fact is that there is not sufficient evidence to clearly demonstrate that the city is receiving back the tax base lost from the tax exemption using the current cost benefit analysis. The city provides the tax incentives to those companies it feels would not locate or expand in Albuquerque “but for” the IRB. This is presumed but currently, there is no way to say for certain that companies would not locate or expand without the IRB.

The fiscal impact model can be improved to more accurately measure costs and benefits in a cumulative manner and over time. A number of variables are missing in the current model including impacts on the labor force, wages and income, municipal infrastructure and property taxes. The number of variables considered for impact, if expanded, would provide more information on possible explanations of costs. Qualitative data, such as interviews from unions or other stakeholders, can be used to inform the

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choice of indicators, therefore improving the quality of the quantitative data.

Better assessments of performance will lead to better capabilities to make sound economic development decisions. Performance measurements, however, must begin with better record keeping and monitoring. Currently, the Office of Economic Development does not have the resource capability to provide current and ongoing records of company compliance with their own agreements established in the bond documents. It is unlikely that any sound business would be so nonchalant about performance measurement of its investment. Asking the city to continue in this manner is asking it to continue bad business practice.

Improving the IRB Program

When Philips laid off workers after receiving its second IRB, it said that national economic and market conditions could explain its need to cut labor costs. The fluctuation in external conditions meant, they claimed, that they should not be held accountable for not being able to employ as many workers as they said they would. They had no way of controlling those trends.

Companies and their supporters argue that IRBs should be issued because of long term benefits such as job creation. At the same time, they argue that it is difficult for them to be held accountable for being able to meet those commitments because of fluctuations in the national and international economy. With so many unknowns, it suggests that private sector employment can be at least as unpredictable as government employment, perhaps more so.

The significant impact of external economic factors on a corporation's ability to meet long-term commitments may suggest the need for shorter terms for the industrial revenue bonds. Shorter terms would allow the company to make commitments it is more likely to meet. Corporations would be less likely to negotiate conservatively because the period of uncertainty is decreased. It is easier to predict a few years into the future, then for a twenty-year period. This would be compatible with stakeholders who want to see that more accountability measures are built into the bonding documents and want more instances of corporate generosity.

Short term bonding could include clear, short-term measurable outcomes. An important step would be to articulate what these clear, short-

term measurable outcomes might be with respect to the many issues expressed by community stakeholders. Short term bonding may be difficult, however, given that Albuquerque's IRBs connect tax abatement with financing opportunities. Shorter-term bonds mean shorter-term financing and therefore higher payments, something that corporations may be less willing to do. Albuquerque used to issue 30-year bonds and now issues 20-year bonds. Continuing the downward trend may make sense, even as a balance is sought between accountability measures and a company's meeting its contractual obligations.

It is the lack of accountability in the IRB process which community stakeholders find most contradictory.

While the idea of issuing shorter-term bonds may be worth considering, the point is still accountability and the extent to which the city fails to hold corporations to measures of outcome and performance. It is the lack of accountability in the IRB process which community stakeholders find most contradictory with accountability they must have as consumers, as taxpayers, as workers.

Issues of accountability, begin the moment a corporation is recruited to locate in Albuquerque. Stakeholders believe there should be some criteria used to determine which companies would receive an IRB and the conditions of the bond. Even prior to that, stakeholders insist on due diligence on the companies, beyond what is currently done. What is the record of this corporation in other communities with respect to jobs, stability, contamination, and corporate citizenship? Economic development professionals believe that placing any restriction on corporations impedes their ability to recruit companies to Albuquerque.

Stakeholders do not want corporations to locate or expand here without standards and conditions.

Stakeholders do not want corporations to locate or expand here without standards and conditions. While it is the case that the Office of Economic Development does some initial screening of companies, stakeholders do not view this as adequate and seek a process of due diligence on the companies and more additional selection criteria.

They believe that recruiting companies without standards benefits only a few interests, but not the community at large. Community stakeholders do not believe rhetoric that the special interest approach to economic development is in their best interests. Stakeholders argue that Albuquerque should not be afraid to have more standards for itself, should assume a stronger hand in the bargaining process, and should make better deals for its citizenry. The long list of conditions for IRB awards provides an important starting point to develop a process for due diligence and selection criteria.

In exchange for tax benefits, stakeholders want to attract the kinds of

corporations that will give back to the community, participate in its activities, hire its local labor force for the higher paying jobs, and provide resources back to the community. Corporations are probably more likely to comply with these conditions than is presumed. Anecdotal information suggests that there may be cases where corporations agreed during early negotiations to pay higher wages, then were convinced to do otherwise by local interests for fear that it would raise the level of wages and reduce recruitment capability. If this is indeed the case, it is further evidence of an economic development approach that does not take into account the needs of the community at large. Impacts of lower wages on a community have larger ramifications than just economic and show itself in various social indicators of quality of life. Stakeholders do not oppose the use of industrial revenue bonds, only their misuse.

Stakeholders recommend that agreements with corporations be placed at the front end in the bond agreements with monitoring on their compliance. As is the case in the private sector, penalties exist for non-compliance with conditions set forth in a contract. Similarly, community stakeholders would like the same standards applied to the city's bond agreements with corporations. These penalties may range from pay back of tax abatements received to termination of the bond contract to keeping the land as collateral. Stakeholders also recommend the creation of an oversight commission.

Stakeholders articulate a concept of "corporate citizenship" with respect to what they expect of companies who do business in their community. Comments and conditions reflects the view that corporations must be accountable to the community in which they operate particularly those who receive tax exempt status on their facilities. This is a particularly strong sentiment in light of examples where stakeholders feel that corporations receive benefits without accountability, or when they leave behind an unimproved labor force or a contaminated site. Stakeholders want corporations to be "responsible corporate citizens" who are involved in the community.

Stakeholder comments emphasize building on and meeting the needs of local labor, resources, and culture.

Community stakeholder concerns point to the absence of an economic development strategy that reflects the interests of the "community at large." Stakeholder comments emphasize building on and meeting the needs of local labor, resources, and culture. Economic development planning that is inclusive and comprehensive is needed in the city of Albuquerque. This may require multiple forums and multi-methods to ascertain the desires and needs of local residents. Most critical is creating the space for stakeholders to participate comfortably and effectively.

Stakeholders are not arguing against industrial revenue bonds as a tool for economic development. In essence, they are seeking a more representative economic development strategy that ensures widespread benefits, a wider selection of tools to implement that strategy and the wise use of those tools. With respect to IRB recipients, conditions and compliance beyond what currently exists, are a minimum.

In addition, stakeholders would like to see more small local businesses benefit from industrial revenue bonds. Since the legal work for the bond contract is costly and since it is necessary to identify a financial institution that will finance the bond, it may be more difficult to finance small businesses. Nonetheless, community stakeholders are consistent in requesting that IRBs be created to meet these needs. To support small businesses the city can,

- Provide leadership and demonstrate will
- Develop a product that looks like an IRB for small businesses
- Identify incentives for the buyer of the bond, e.g. CRA credit, guaranteed return on their investment
- Identify banks willing to provide small businesses loans
- Identify bond attorneys willing to provide pro bono or near pro bono assistance to small businesses
- Support organizations that assist small businesses

Stakeholders request that policy makers take the time to make the right decisions.

Stakeholders request that policy makers take the time to make the right decisions. The fast track approach to economic development is limited in who it serves and adds additional strain on the municipality to keep pace and meet additional infrastructure needs. This fast track approach to economic development is made worse when the tax base does not keep pace with those additional infrastructure demands. Stakeholders also request policy makers to think about costs and benefits as long term considerations. Making short-term decisions with long-term costs is not considered wise economic development.

Good economic development policy can be a win win situation.

Good economic development policy can be a win win situation where it is worth everyone's while - better for business, for community at large. Policy makers can seek the best approach to increase the circulation of capital, increase local business opportunities, produce goods for export, and provide meaningful and livable employment. Training and improving the quality of the labor force needs also to be accompanied by educating its citizenry. Both are necessary. Of great importance from stakeholder perspectives, is that the city does not sell itself short. There are competitive advantages Albuquerque has yet to build upon.

Role of Government

It is particularly important to note that the community at large views the process of decision making with respect to industrial revenue bonds and economic development in general, as limited to a few individuals and organizations. Many even hold the view that government is somewhat hostage to the demands of these interests. Nonetheless, government is responsible to the entire citizenry and needs to be more central in facilitating the conversation and policy development around economic activity. This is notably important because of the larger impacts that economic development policy has on socio-economic, social and cultural factors. Thus, the discourse around economic development requires leadership from both elected and appointed officials who represent the larger interests of the community.

Stakeholders add a significant dimension to discussions of economic development policy. The issues they raise are not found in most current economic development documents. Particularly for those whose families have been here for generations, the fact that this is a "family based culture" is strongly valued and viewed as an essential consideration for economic development strategies. Community stakeholders ask the question, "What kind of community do we want to develop?" What is Albuquerque's vision for itself and how does an effective IRB policy help it to achieve that vision? The Next Generation Initiative describes one of Albuquerque's amenities as "culture and recreation," but without real recognition of the value of cultural traditions and without incorporating those values and assets into economic development policy.

Economic development is the purview of those who wish to be a part of the discussion.

Thus, the very process of decision making around IRBs and economic development needs to be redone and must reinforce the notion that economic development is the purview of those who wish to be a part of the discussion. As such, the city can provide economic development education to build the capacity of more people to join this dialogue. Economic development issues can be made to be a salient topic about which its citizenry is informed and involved.

City council should be involved earlier in the IRB process so that they are not perceived as merely rubber stamping decisions made by others. With leadership from city council, Albuquerque can be a model for how it uses its economic development tools to build a stronger community with standards for itself. Well-defined criteria for IRB use are an important piece of this, but so are well-articulated concepts of what the community expects from its corporate visitors. Working with stakeholders and companies, the council can provide leadership to develop expectations of corporate citizenship. In

Stakeholders view city government as “working to solve problems, needs, and interests of the local community.”

addition, it is desirable to establish different criteria for different businesses, e.g. large businesses vs. small businesses.

While some may view the role of local government to be primarily one of supporting the private sector, stakeholders view city government as “working to solve problems, needs, and interests of the local community.” City council, many say, needs to be more involved in decision making regarding IRBs -early in the process.

As a set of next steps, city council can:

- Create space and open the discourse to allow for inclusive and comfortable conversations to occur about effective economic development
- Define desired outcomes and measures of success for the kind of city “we” want (we in the broadest sense)
- Develop an economic development plan with steps for implementation
- Develop process and methodology to establish selection criteria, due-diligence, reporting and monitoring mechanisms, compliance measures, and penalties for non-compliance.
- Slow the process. Fast tracking is counter effective. The pace of growth needs to allow for the stakeholders to participate, carefully weigh decisions, and develop necessary accompanying infrastructure
- Consider shorter bond terms while still allowing for the financing advantages that the corporation seeks. This makes for more easily definable outcomes and is consistent with companies’ concerns on uncertainty of long term economic conditions. Shortened bond terms allows corporations to make commitments to community.
- Consider a livable wage ordinance. Doing so sends the message that the council is committed to quality jobs and the increase in wages and household wealth
- Begin with expectation to demand corporate citizenship of company. Request they be a part of the community in a positive way, primarily by integrating locals into its labor force at all levels.

The city is at a crucial marking point. Councilors can demonstrate creative leadership to raise the level of the debate over how Albuquerque will define itself. The more open and broad the debate is defined, the better will be its outcome, particularly in the long term.

Notes:

¹ Dr. Teresa Córdova conducted this portion of the analysis requested by the City Council. Prager Company and NatCity Investments, using some of Córdova's data on stakeholders, assessed Albuquerque's cost competitiveness and the appropriate use of IRBs. The two studies combine to meet the Council's request for an IRB review.

² For sources on figures, see Bureau of Business and Economic Research, *Trends in Employment, Earnings, Income and Income Distribution in Bernalillo County*, June 2002.

³ Research by the Resource Center for Raza Planning in the School of Architecture and Planning at UNM .

⁴ Fitch IBCA The International Rating Agency, July 28, 1999.

⁵ Memorandum, Sutin, Thayer, and Brown, February 27, 2002