ANALYSIS OF ALBUQUERQUE'S INDUSTRIAL REVENUE BOND PROGRAM

Prepared for:

Albuquerque City Council

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INTRODUCTION

The debate surrounding the Industrial Revenue Bond (IRB) program in Albuquerque is perhaps more public and longer lasting than in any other major U.S. city. Emotionally charged and often divergent opinions on the subject abound. At the request of the Albuquerque City Council, Prager Company and NatCity Investments, with support from Albuquerque consultant Dr. Teresa Córdova, have been asked to enter the debate by examining the appropriateness, competitiveness and opinions surrounding the City's IRB program.

The charge is to perform this analysis impartially and in the context of the City's broadly defined economic development objectives. This exercise has involved scrutiny and input from a number of perspectives: government leadership and the IRB issuers, marketing professionals charged with attracting and retaining investment, businesses that could directly benefit from IRBs, and the community at large.

The IRB analysis performed essentially has gone down two intersecting tracks. The first is an examination of the role Albuquerque's IRB program plays in the context of the City's operating cost competitiveness and menu of incentives offerings. Business decisions are made holistically, taking into account a multitude of variables. Therefore, it is only appropriate to examine Albuquerque's IRB program as part of the larger picture. Should change be warranted, their implications must be understood, especially in terms of any economic development objectives the program is intended to help achieve.

The second track is an examination of the process by which IRB decisions are made and the extent to which they are conducted efficiently and appropriately. This requires an understanding of the process from the perspective of the major parties involved and a comparison with the processes of other communities.

In performing this analysis, data and opinions of government, business and the community at large have been gathered. Prager Company and NatCity Investments have interviewed elected and appointed government officials, State and local economic development personnel, chamber of commerce executives, bond counsel and experts within the financial community, economists and IRB recipients. IRB records have been examined dating back well over a decade, as have the body of economic development, IRB, tax and related studies. Interviews also have been conducted with government officials and economic development professionals in nine western and southwestern U.S. cities that compete with Albuquerque for business investment. To learn the viewpoints of community stakeholders, Teresa Córdova conducted one-on-one interviews, focus groups and public forums with more that 40 individuals and community-based organizations. The results of the community outreach are woven into this analysis and available in their entirety under separate cover.

The IRB analysis comes at a time of change for Albuquerque. The City has a new Mayor, a new City Council, is adjusting to the emerging "New Economy" and the nation's present economic uncertainties, is pondering ways to respond to problems facing its existing industries, and is grappling with how to bridge the gap between its more and less fortunate citizens. Many of the questions raised about the City's IRB program -- such as its fairness, effectiveness, accessibility and accountability -- are similar to those raised about the City's present and future economic development plans and pursuits. So while the IRB debate may appear to some to be self-contained, it could and perhaps should serve as the door opener to a discussion that is considerably larger than the financial tool itself.

With several new faces and pressing issues to address, this may, in fact, be the ideal time to hold this discussion. In performing the IRB analysis, the consulting team has attempted to remain mindful of these larger economic issues and, while somewhat beyond the scope of the assignment, has on occasion offered observations and recommendations that may appear to stray somewhat from the issue at hand.

The report is divided into four sections that build upon one another. They are:

I. Operating Cost Competitiveness -- a comparison using readily available data of Albuquerque's competitiveness for the attraction of business facility investment from the perspective of the corporate decision-maker

II. Non-IRB Incentives -- comparison of Albuquerque's array of non-IRB incentives versus those of select competitors and in the context of its business operating cost structure

III. IRB Program Mechanics -- review of the internal workings of Albuquerque's IRB program with emphasis on its targets, due diligence, application processes and compliance enforcement as compared to that of competing locations

IV. Economic Development-IRB Program Alignment -- examination of the IRB program in the context of City Government's stated economic development objectives and concerns of the community at large

CONCLUSIONS

Albuquerque's IRB program has enhanced the City's performance and success in economic development. The program has aided in the attraction and retention of high-quality employers with certain immediate and long-term benefits to the community. As with any incentive program, it is difficult to evaluate a single program's importance in site decisions. The City employs a "but-for" clause in its IRB decision-making. But no City, including Albuquerque, can say with certainty that, in each case, facility investment would not have happened without the program.

On balance, Albuquerque is a relatively affordable operating environment for business, with one notable exception, its tax burden. The City offers much that the business community needs to thrive with the most significant exception being an adequately skilled workforce. This is, perhaps, the single greatest obstacle that Albuquerque must overcome if its economy is to continue to evolve. Incentives are used to directly address the City's limitations and elevate its cost competitiveness. IRBs are Albuquerque's best vehicle for accomplishing this, though other cities use a variety of approaches to achieve the same end.

The aggregate menu of Albuquerque's incentives is not only thin, but also without particular focus. Because of the limited incentives available in New Mexico, it is fair to say that the IRB program has played the most significant role in defining a cost advantage on investment decisions. The program has most certainly helped to make Albuquerque competitive with other cities vying for sought-after industries.

New Mexico has the distinction of being one of a small number of states nationwide to combine financing and tax incentives under one IRB umbrella. As a consequence, Albuquerque's program invites far greater controversy than is encountered elsewhere. Even with the disproportionate attention placed on Albuquerque's IRBs, the program remains misunderstood. As a lending vehicle, repayment is mandatory. As an instrument to reduce taxes on new investment, it is the incremental tax increase that is abated. And contrary to its name, the City's IRB is not government funded and government credit is not involved. These facts are often lost among the program's critics.

There seems to be a diverse and, at times, conflicting set of expectations for the IRB program and an absence of common goals. Further, there is dissatisfaction from almost all parties involved in the program. Elected officials have concerns about the equity of its process; businesses that have used the program feel it is cumbersome and inconsistent; and community residents question its ultimate benefit to them and the community at large.

The program is understaffed and exercises limited safeguards to achieve the results desired by parties involved. There is a perception that the system and rules are not in place. In reality, monitoring and compliance mechanisms now exist; they are, however, untested and largely unknown by most interested parties. The level of effort applied to Albuquerque's IRB process is greater than that generally found with regard to IRBs elsewhere, and its recent installment of enforcement provisions (clawbacks) is also a rarity. However, Albuquerque has thus far not exercised its authority to adjust the level of IRB-generated tax incentives up or down based on company desirability or performance. Still, the absence of common vision and specificity regarding reasonably expected outcomes, and the lack of available staff and financial resources for managing this process, prevents even mechanisms in place from working to their fullest.

It is important that any examination of a city's incentives and other programs be performed in the context of the jurisdiction's overriding economic development plan. But in the case of Albuquerque, no such plan exists. An economic development plan establishes a clearly articulated mission, objectives, action-oriented strategies and assigned tactics for public and private sector organizations. It outlines processes for identifying and prioritizing opportunities, mobilizing resources, sharing information, and monitoring and measuring outcomes. An economic development plan also melds business attraction and retention into one seamless, coordinated package with priority given to practices that most directly benefit residents and local businesses. Activities in areas such as workforce development, local business support, industry target marketing and incentives utilization are strategically integrated because they are inter-dependent. In Albuquerque, the absence of an economic development plan breeds confusion, inefficiency and tactics in conflict with one another.

Albuquerque's economic development activities can at the same time be thoughtful and short-sighted, rigid and without structure. The City's IRB program and other incentives may not be tied to an economic development plan, but they appear designed to achieve many of Albuquerque's stated aspirations. Emphasis is placed on large, capital and labor intensive firms whose products expand the City's economic base and whose global orientation expand its reach. Systematically moving away from federal government (i.e. military and government laboratory) dependence and adding stability through industry diversification seems to be of paramount importance.

The due diligence already imbedded in the IRB evaluation process encourages the screening out of less desirable applicants without summarily eliminating existing opportunities (or those not yet encountered). The discretionary nature of these decisions, if supported by proper monitoring and management, affords the City an important degree of latitude to respond to the changing marketplace. But decisions regarding the issuance of IRBs are not based on tangible objectives, a fact that precludes meaningful performance measurement.

The real issue may not be who receives these incentives but rather who does not. Prohibitively high processing fees from a small business perspective, a gauntlet of procedures to run, inadequate information written with the local audience in mind, and limited technical assistance and local business representation all add up to a program that is beyond the grasp of many Albuquerque establishments. As they exist today, the largest incentive programs available -- IRBs and In-Plant Training -- do little for the local establishments most at risk.

Small, local establishments benefit the least from Albuquerque's IRB program. In order for this to change, the community at large needs a multi-pronged approach whereby application costs are reduced or subsidized, technical aid is increased, and the process is streamlined, less politicized, and demystified. This requires City personnel to work alongside local business organizations and community groups so assistance gets to those eligible firms who need it the most.

Problems arise when the City attempts to achieve its lofty economic development aspirations while at the same time directly benefiting its citizenry. As stated, many of the incentives now in place cater mostly to a handful of companies uncharacteristic of the kinds of firms that define Albuquerque's economy. IRBs are costly and cumbersome, In-Plant Training excludes small firms just struggling to survive and few incentives are channeled to the locales where the need is greatest. The problems inherent in applying these programs to the core constituency are worsened by the fact that few organizations and resources exist to connect these dots. Creating community wealth is one matter, distributing it is something entirely different.

Wealth can be distributed in many forms. The benefits of new, large-scale facility investment are maximized when the right connections are established within the community. Local job creation means either attracting the jobs right for the population or preparing the population to be right for the jobs. Perceived and modeled spending only becomes a reality if connections with appropriate suppliers are forged and relationships maintained. Albuquerque emphasizes the raw attraction of investment, less so the more detailed translation of this investment into direct community benefit.

The issue of competitiveness is at the core of both the IRB debate and the achievement of the City's economic development objectives. Diversifying Albuquerque's economy into higher paying private industries means expanding into new areas without a complete track record, and doing so with certain operating climate deficiencies. This is a challenging undertaking even when opportunities are plentiful. It also means supporting establishments whose continued growth or even survival is directly proportional to their ability to remain current and efficient. As demonstrated in the use of its IRB program and other available tools, Albuquerque seems properly mindful and attentive to the global issue of competitiveness. But in diligently working to transform its economy, the City's economic development community may have strayed from the more local economic issues at hand, those faced every day by many of its employers and residents.

In summary, Albuquerque's IRB program is one of few valuable tools the City has at its disposal to elevate its competitiveness and attract and retain business investment. IRBs are more fully utilized and more carefully scrutinized in Albuquerque than they are in most other locations. Still, this program is not without flaws. It lacks sufficient focus, alignment with other economic development initiatives and supporting resources. Due diligence, application processes and monitoring all warrant improvement. Addressing these flaws will improve the effectiveness and efficiency of the IRB program and may squelch criticism of this instrument. But the concerns surrounding it may be emblematic of something considerably larger, the belief by some that the City's economic development efforts are failing to address the needs of local businesses and residents.

I. OPERATING COST COMPETITIVENESS

Albuquerque's operating cost structure has been analyzed from the perspective of corporate site seekers examining the City for potential facility investment. This includes both outside companies contemplating their first location in the City and existing Albuquerque companies contemplating expansion within or relocation out of the City. The location decision-making needs of typical businesses in the manufacturing and office sectors have been taken into account here. This analysis provides insight into Albuquerque's comparative cost advantages and disadvantages relevant to the City's efforts to attract, retain or help expand business.

Cost factors evaluated include labor, real estate, electric power and general business taxes. Data have been derived from readily available, secondary sources. In addition, certain non-cost factors, such as labor availability and transportation, also have been scanned, though in considerably less detail and largely through anecdotal sources (employer comments, experiences of economic development professionals, news articles, and so on). No attempt has been made to verify the accuracy of information provided by third parties.

Albuquerque's competition for facility investment is fierce, sophisticated and varies depending upon the target industries in question. For the purposes of this cost analysis, comparisons have been confined to locales in the western half of the U.S. These locales are deemed by Albuquerque's economic development authorities to be competitors for the attraction, retention or expansion of business. Their level of competition will vary greatly by industry and company-specific needs and circumstances.

Comparison Locations	
Austin, Texas	Phoenix, Arizona
Colorado Springs, Colorado	Portland, Oregon
Dallas, Texas	Salt Lake City, Utah
Denver, Colorado	San Antonio, Texas
Las Vegas, Nevada	San Diego, California
Los Angeles, California	Tucson, Arizona
Oklahoma City, Oklahoma	

Labor

Typically, the single most significant factor in business investment decision-making is labor. This is also the case in Albuquerque where most of those interviewed cited it as most important.

Individuals cite difficulty finding and hiring appropriately trained workers in Albuquerque. This is especially the case with advanced manufacturers and other technology-oriented employers. In fact, many of the industries targeted by the City in the *Next Generation Economy Initiative* are considered to be the same ones encountering difficulty finding adequately skilled and trained labor. But as opposed to many other locations, Albuquerque's labor issues tend not to be at the highest skill levels (where advanced degreed personnel are in large supply), but at mid-skill levels down to recent high school graduates just entering the workforce.

Even at a time of rising unemployment, a shortage of technically savvy workers remains a concern throughout much of the U.S. Albuquerque's unemployment rate is, however, among the lowest of all comparison locations. Further, Census-reported education attainment levels show Albuquerque to be a relatively well-educated community, with levels higher than in many of the competing locales. It is important to note, however, that education attainment is not synonymous with either workforce preparedness or skill availability.

Based on both interviewee comments and available statistics, from a business perspective, Albuquerque appears to be an accommodating environment in terms of labor-management relations. Its union membership is relatively low, however, unlike most of the comparison cities, it does not have State Right-to-Work status, a noteworthy distinction during the location selection process.

Miscellaneous Labor Conditions					
	Unemploy. Rate (Metro Area)[1]	Education Attainment Level: Percent with At Least H.S. Degree[2]	Education Attainment Level: Percent with At Least Bachelor Degree[2]	Percent Private Sector Union Membership[3]	State Right to Work Status[3]
Albuquerque, NM	5.1%	82.1%	26.7%	3.9%	No
Austin, TX	5.4%	83.4%	34.7%	1.2%	Yes
Colorado Springs, CO	6.8%	88.3%	25.8%	0.0%	No
Dallas, TX	6.8%	77.1%	26.3%	6.3%	Yes
Denver, CO	6.0%	79.2%	29.0%	5.5%	No
Las Vegas, NV	6.8%	NA	NA	NA	Yes
Los Angeles, CA	6.6%	70.0%	22.3%	7.4%	Yes
Oklahoma City, OK	4.4%	NA	NA	NA	Yes
Phoenix, AZ	5.5%	81.5%	22.1%	1.8%	Yes
Portland, OR	8.6%	82.9%	23.7%	14.3%	Yes
Salt Lake City, UT	5.0%	85.3%	23.8%	3.3%	Yes
San Antonio, TX	4.9%	NA	NA	NA	Yes
San Diego, CA	3.9%	81.9%	25.3%	2.9%	Yes
Tucson, AZ	4.6%	NA	NA	NA	Yes

[1] U.S. Bureau of Labor Statistics, January 2002 (Not Seasonally Adjusted).
[2] U.S. Census Bureau, 1990.
[3] Union Membership and Earnings Databook, Bureau of National Affairs, Inc., 1998 and National Labor Relations Board, 2001. Note: Oklahoma passed its Right to Work legislation in 2001.

For most businesses, wage rates in the location selection process are exceedingly important in that they can account for over half of overall operating costs. Exceptions may include operations such as distribution, where employment levels are typically small in relation to facility space occupied. For this analysis, wages for nine occupations were analyzed across manufacturing and office sectors. Albuquerque's manufacturing wage rates were found to be among the lowest for all occupations analyzed. In the Office Sector, Albuquerque's wage rates were also low, with the exception of Computer Support Specialists and Word Processors – two occupations where labor shortages (general technology skill deficiencies with the former and accelerated back office growth with the latter) may be driving up prevailing rates.

Labor Costs: Median Hourly Wages[1]

	Financial Analyst	Computer Support Specialist	Database Admin.	Word Process.	Industrial Mach. Mechanic	Electrical & Electron. Equipment Assembler	Structural Metal Fabricator	Tool & Die Maker	Product. Worker (Helper)
Albuquerque, NM	$22.76	$19.74	$20.81	$12.21	$15.06	$10.00	$9.94	$13.78	$8.01
Austin, TX	$29.16	NA	$29.42	$11.78	$14.53	$11.87	$11.20	$15.21	$9.58
Colorado Springs, CO	$24.85	$14.51	$22.75	$10.60	NA	$9.20	$17.36	$18.69	$8.88
Dallas, TX	$24.76	$19.94	$29.14	$13.10	$16.88	$9.04	$12.35	$17.29	$8.69
Denver, CO	$24.08	$19.51	$27.17	$12.94	$17.50	$7.99	$14.59	$19.06	$7.80
Las Vegas, NV	$18.90	$11.97	$25.27	$11.27	$21.63	$8.93	$13.25	$17.83	$7.79
Los Angeles, CA	$27.14	$19.93	$25.06	$12.90	$20.31	$8.85	$11.66	$19.44	$6.97
Oklahoma City, OK	$16.90	$11.98	$19.90	$10.02	$15.36	$9.23	$11.91	$23.47	$6.80
Phoenix, AZ	$25.45	$18.79	$27.12	$10.60	$18.20	$10.36	$14.16	$19.72	$7.26
Portland, OR	$25.46	$12.60	$24.20	$12.86	$19.89	$9.77	$15.61	$21.59	$9.21
Salt Lake City, UT	$23.31	NA	$24.67	$10.91	$19.31	$10.12	$13.29	$17.27	$8.64
San Antonio, TX	NA	$14.13	$21.05	$10.99	$13.83	$10.76	$9.04	NA	$8.12
San Diego, CA	$24.20	$15.88	$24.01	$12.59	$18.84	$10.10	$13.12	$22.29	$7.36
Tucson, AZ	$26.06	$13.83	$25.92	$9.94	$15.06	$6.98	$12.31	$17.66	$6.32

[1] U.S. Bureau of Labor Statistics, 2000. Note: all wages are for MSAs/PMSAs.

Although accounting for a much smaller percentage of overall labor costs than wage rates, the State of New Mexico's Unemployment Insurance costs for new employers appear neither advantageous nor disadvantageous versus the competition. This, however, does not take into account rate variations resulting from different employer experiences.

Unemployment Compensation Insurance[1]

	Standard Rate for New Employers
Arizona	2.7%
California	3.4%
Colorado	1.7%
Nevada	2.95%
New Mexico	2.7%
Oklahoma	1.0%
Oregon	3.0%
Texas	2.7%
Utah	8.1%

[1] Oklahoma and Utah rates from States' unemployment insurance authorities, 2002.
Others from Greater Colorado Springs Economic Development Corporation, 2001.

Real Estate

Available real estate is an exceedingly important factor in the corporate location process. Businesses will look for property of adequate size, clear title, affordable cost, proximity to transportation, full utility service and visual appeal. At the macro stages of site selection, companies need to know that the city under consideration has a variety of properties that meet these base level needs.

In today's market of high vacancy rates and heavily discounted properties, locations that do not have an adequate selection of property may be quickly eliminated from site selection contention. This is especially true after the tragic events of September 11th and the general economic downturn that preceded them.

The Albuquerque metropolitan area is home to many desirable industrial sites, from utility-served industrial park property to raw industrial land outside any park setting. Similarly, commercially zoned land and existing buildings also can be found in abundance throughout the Metro Area. The same cannot be said for properties within the Albuquerque City limits. A significant portion of available industrial properties in the City are in-fill sites and older structures in disrepair. In many instances, neighborhoods most proximate to these properties are those encountering the greatest level of economic hardship. Though the availability of viable commercial property does not deserve the same characterization, it often cannot compare favorably to that available just outside the City limits.

The shortage of "market-ready," visually appealing property within Albuquerque's city limits and the placement of distressed properties is significant in the incentives debate. First, unlike many other cities, Albuquerque does little to geographically stratify or supplement its IRB program and other noteworthy incentives (or its decision-making processes). Albuquerque does designate Metropolitan Redevelopment Areas and provide programs targeting these geographies. But these efforts tend to emphasize the business environment rather than the operation of the businesses themselves. With few zone-specific inducements, attracting businesses to the most troubled sites and neighborhoods becomes a difficult proposition. Second, the efforts of the City's neighborhood-based organizations and community development corporations trying to attract (or more commonly) retain businesses fall short when viable property options are not available.

Elsewhere, the well-intended efforts of regional business attraction organizations benefit suburban communities rather than the Region's core city. This, however, does not appear to be the case in Metro Albuquerque, where many of the businesses successfully wooed by Albuquerque Economic Development (AED) have landed in Albuquerque City Proper.

From a real estate cost perspective, data gathered prior to September 11th reveal Albuquerque is quite affordable in certain categories, less so in others. For companies inclined to lease space, whether it is for manufacturing or office operations, Albuquerque stacks up favorably. This cost advantage seems to erode for companies intent on purchasing land and constructing new facilities. Based on the data procured, these companies may see higher costs for the land itself and then higher costs again for the construction. The same holds true, on average, for the purchase of existing industrial buildings. Though compared to some cities from a real estate perspective, Albuquerque is quite affordable. This is not the case versus cities in several neighboring states, including Austin, Dallas, Oklahoma City, San Antonio, and Tucson.

Real Estate Costs					
	Improved Industrial Sites: Sales Price per Acre (2-5 Acres)	Industrial Buildings: Sales Price per Square Foot (40-59K sf)	Industrial Buildings: Lease Price per Square Foot (40-59K sf)	Office Property: Lease Price per Square Foot[2]	Construction Cost Index[3]
Albuquerque, NM	$3.75	$45.00	$4.10	$16.17	110.2
Austin, TX	$2.25	$43.00*	$4.44*	$31.59	98.6
Colorado Springs, CO	$3.50	$70.00*	$7.00*	NA	111.4
Dallas/Fort Worth, TX	$2.85	$30.00*	$3.60*	$25.12	102.8
Denver, CO	$3.50-4.00	$30.00-35.00	$3.50-4.00	$26.29	115.1
Las Vegas, NV	$7.00	$50.00	$4.56	$24.12	NA
LA/Orange Co., CA	$7.50-15.00	$35.00-50.00	$4.00-5.00	$28.13	NA
Oklahoma City, OK	NA	$15.00-25.00*	$2.75-3.50*	$16.90	NA
Phoenix, AZ	$3.25-10.00	$45.00-55.00	$4.50-5.75	$24.02	108.0
Portland, OR	$8.00	$40.00	$4.00	$25.37	129.0
Salt Lake City, UT	$3.00	$28.45	$3.36*	$19.32	108.3
San Antonio, TX	$2.50-4.00	$25.00-32.00	$2.64-3.36*	$19.81	NA
San Diego, CA	$10.00	$90.00	$6.24	$32.62	128.6
Tucson, AZ	$2.00	$27.00	$5.40	NA	NA

* Suburban rates indicated with an asterisk. All others are city rates.
[1] *Comparative Statistics of Industrial and Office Markets*, Society of Industrial and Office Realtors, 1999.
[2] CB Richard Ellis, 2001. Note: data reflect suburban market rates.
[3] *Weighted Average Cost Index*, R.S. Means, 2000. Note: lower cost indices are more advantageous.

The construction boom in the late 1990s, followed by the economic turndown and "tech wreck" beginning a few years later, left many of Albuquerque's competitors with a glut of vacant space and minimal near-term rental prospects. The tragedy of September 11th further exacerbated the real estate situation. These same forces have substantially reduced the number of property seekers today and, perhaps, well into the foreseeable future. As a result, the overabundance of high-quality, inexpensive property affords today's dwindling number of property seekers a tremendous variety from which to choose. Many properties considered marginal before these events are not even being considered today. Cities that have an overabundance of choice property are working feverishly and closely with the real estate community to find suitable tenants. Many of those that do not are attempting to compensate for a shortage of desirable and adequately prepared real estate through various incentive programs. As will be discussed shortly, Albuquerque appears to be stressing the former, less so the latter.

Transportation and Utilities

For the typical business location decision-maker from outside the area, transportation is first evaluated at the regional level and then in the context of specific properties that may be under consideration. For those within the area, often only the latter is carefully assessed. The direct cost of transportation is rarely assessed in any great detail by corporate decision-makers. It is the indirect cost of inefficient transportation systems, poor air connections, congested or poorly linked roadways that tend to be of greatest concern. In that transportation needs vary by industry and company, and that cost is the primary focus of this study, the topic of transportation has not been carefully evaluated here.

It is worth noting Albuquerque's distance from major consumer markets (especially California and urban Texas). For businesses seeking central placement between these major markets, Albuquerque is well situated. But, more often than not, businesses prefer to be close to one market or the other, not centered between the two. For these businesses, contrary to Albuquerque's marketing message, the City is at a disadvantage versus better-situated competitors. This fact becomes all the more important in the context of the U.S. Department of Transportation's claim that trucking accounts for 75% of all shipments by value.

Albuquerque's relatively low roadway congestion (certainly compared to markets like Dallas, Denver, Los Angeles and Phoenix) is a slight plus, though the roadway system is beginning to show signs of strain under the weight of the area's rapid population growth. Growing roadway congestion recently prompted voters to opt for an increase in the gross receipts tax to be used for transportation infrastructure improvements. Problematic for businesses requiring strong air connections is Albuquerque's modest number of airline flights, though the City does surpass several of its competitors in this area.

Businesses contemplating a facility investment will assess the overall availability, reliability and cost of local utilities. Initial comparisons tend to take into account cost variations, such as the cost of electric power or natural gas. Once cost is evaluated, the utility examination turns to the adequacy of the utilities in terms of specific business needs. For instance, certain companies that can ill-afford power interruptions will examine a utility's history of power outages and disruption. Others with heavy telecommunications needs may require advanced and extensive fiber optics. Many utility considerations are property-specific, not regional.

This study looks solely at electric power cost and, even here, at a fairly superficial level. This is because the electric power environment has changed dramatically in recent years. With the advent of deregulation and introduction of outside providers, the cost per kilowatt-hour of the local vendor is less important for comparison purposes than it once was. With this said, New Mexico has the unusual distinction of having voted deregulation in then back out again. Today, the Public Service Company of New Mexico (PNM) is the only option in Albuquerque, at least until the next vote on deregulation. Deregulation (and with it, power provider choice) is commonplace in many other locations.

According to those interviewed, PNM is thought of highly both as a provider of power and as a contributor to the business investment/assistance process. But as companies continue to embrace the advantages of provider choice, Albuquerque's limitations may be a strike against it. Furthermore, according to the data provided, the utility's costs are not nearly as competitive as in several of the comparison locations and, unlike some of their counterparts, PNM claims it is not permitted to offer rate reduction incentives.

Transportation and Utilities			
	Airline Flights[1]	Daily Commute Times (Minutes) [2]	Electric Power Costs: Typical Monthly Industrial Bills (500 kW 200,000 kWh) [3]
Albuquerque, NM	161	43.2	$12,826
Colorado Springs, CO	42	39.8	$9,816
Dallas, TX	971	52.9	$11,454
Denver, CO	663	48.1	$10,354
Las Vegas, NV	375	44.1	$13,536
Los Angeles, CA	992	56.8	$17,213
Oklahoma City, OK	110	43.4	$9,731
Phoenix, AZ	432	49.0	$13,173
Portland, OR	222	46.3	$8,720
Salt Lake City, UT	272	42.2	$8,867
San Antonio, TX	17	47.2	NA
San Diego, CA	238	46.4	$13,095
Tucson, AZ	78	45.3	$16,746

[1] CNNMoney.com, 2002.
[2] Places Rated Almanac, 1999.
[3] KPMG Peat Marwick National Electric Rate Survey and Edison Electric Institute, 2000/2001.

Corporate site seekers with significant telecommunications needs, including some of those targeted by Albuquerque, seek locations with adequate and accessible fiber optics, as well as alternate long distance carriers (LDCs) with multiple points of presence (POPs). General indications are that Albuquerque's overall telecommunications infrastructure is basically adequate, though it may be falling behind the competition especially in terms of high-speed data service. But with over $100 million earmarked for telecommunications improvements, many of the concerns may eventually be eliminated. Further, from a cost standpoint, the City's communications-based incentives offer certain businesses noteworthy savings.

Taxation

Taxes most commonly evaluated by business investors contemplating a location decision are corporate income and franchise taxes, real and personal property taxes, and sales and use (or gross receipts) taxes. To a lesser degree, businesses recruiting or relocating a large number of individuals from outside the State also will examine personal income tax.

In 1997, the Barents Group of accounting firm KPMG Peat Marwick performed a study of New Mexico's tax and incentives structure versus those of eight competing states -- Arizona, California, Colorado, Nevada, Oklahoma, Oregon, Texas and Utah. The purpose was to gauge the relative competitiveness of New Mexico's business tax structure with and without the application of incentives. This study examined taxes of most interest to business decision-makers (with the exemption of personal income tax) and, for modeling purposes, took into account relevant taxes and certain incentives of "representative jurisdictions" within each of these states. Albuquerque was the representative jurisdiction for New Mexico. Although this study is approaching five years old, it remains a good indicator of New Mexico's business tax competitiveness, and to a lesser degree, incentives competitiveness. Its results have, therefore, been incorporated into this IRB analysis as well.

Corporate Income and Franchise Taxes

Eight of the nine states modeled impose a corporate income tax. Only Nevada imposes no corporate income tax, though it does impose a “head tax” on each new employee, considered by many to be a nuisance but relatively painless. Texas imposes a significant franchise tax based on income or net worth. While technically New Mexico imposes a franchise tax, it is only $50, therefore, of little consequence to the typical firm.

In addition to the tax rate, a state’s apportionment formula (ratio of tax applied to property, payroll and sales) and depreciation methods also impact the overall corporate income and franchise tax burden. New Mexico’s apportionment formula offers businesses the option to double-weight sales tax, thus allowing them to reduce corporate income tax where they have a large amount of non-New Mexico sales. Four of the competitor states automatically apply a double sales formula. The Barents Group model, which takes into account each of these factors, ranks New Mexico’s combined corporate income and franchise tax burden a moderate 5th among the nine states analyzed.

Based strictly on the personal income tax rate itself (supplied in the CCH *State Tax Handbook*), New Mexico offers an advantage over several of the competing states and disadvantage versus others, particularly Nevada and Texas where no personal income tax is imposed. Again, this tax often is viewed with less importance than those previously mentioned and was not analyzed in the Barents Group study.

Corporate Income/Franchise and Personal Income Tax[1]		
	Corporate Income/Franchise Tax[2]	Personal Income Tax
Arizona	Corporate income tax rate is 6.968%, with a minimum tax of $50. Apportionment formula: double sales. No franchise tax is imposed	Tax rates are graduated until taxable income exceeds $150,001 for single filers and $300,000 for married filing jointly, then a maximum rate of 5.04% is imposed
California	Corporate franchise tax or corporate income tax, both at a rate of 8.84%, with a minimum tax of $800. For certain corporations generating income within the State but not taxed under the franchise tax, an alternative minimum tax (corporate income) of 6.65% may be imposed. Apportionment formula: double sales	Tax rates are graduated until taxable income reaches $35,826 for single taxpayers and $71,652 for married filing jointly, then a maximum rate of 9.3% is imposed
Colorado	Corporate income tax rate is 4.63%. Apportionment formula: double sales. No franchise tax is imposed	Tax rate is 4.63%. An alternative minimum tax is also applied. For joint filers, after an exemption of $45,000, a rate of 3.75% is used
Nevada	Imposes no corporate income tax or franchise tax	Imposes no personal income tax
New Mexico	Tax rate is adjustable: 4.8% for first $500,000; 6.4% for next $500,000: 7.6% over $1 million. Alternative tax is 0.75% of annual gross receipts from sales in or into State if certain conditions apply. Apportionment formula: standard or double sales for manufacturers (business chooses). Nominal franchise tax of $50 is imposed	Tax rates are graduated until taxable income exceeds $65,000 for single filers and $100,000 for joint filers, at which time a maximum rate of 8.2% is imposed
Oklahoma	Corporate income tax rate is 6%. Franchise tax of $1.25 per $1,000 invested in the State, with a maximum of $20,000. Apportionment formula: standard	Tax rates are graduated until taxable income exceeds $10,000 for single filers and $21,000 for joint filers, at which time a maximum rate of 7.0% is imposed

Corporate Income/Franchise and Personal Income Tax[1]		
Oregon	Corporate excise tax rate is 6.6% of taxable income ascribed to State activities of corporations not doing or authorized to do business in the State. Qualified taxpayers with minimal sales in the State may elect to pay an alternative tax of 0.25% or 0.125% of gross sales in the State. Apportionment formula: double sales. No franchise tax is imposed	Tax rates are graduated until taxable income exceeds $12,200 for single filers, at which time a maximum rate of 9.0% is imposed. For joint filers, the tax is twice the tax that would be imposed on single persons if taxable income was halved
Texas	Franchise tax rate (based on income or net worth) of 0.25% per year of privilege period of net taxable capital, and 4.5% of net taxable earned surplus. Apportionment formula: 100% sales	Imposes no personal income tax
Utah	Franchise tax is 5%, with a minimum tax of $100. A corporate income tax of 5% (on income not included in the franchise tax base) is imposed on corporations that do not do business in the State but derive income from sources within the State. A maximum gross receipts tax of 1.752% can be imposed on certain corporations not required to pay State income or franchise tax. Apportionment formula: standard	Tax rates are graduated until taxable income exceeds $3,750 for single filers and $7,500 for joint filers, at which time a maximum rate of 7.0% is imposed

[1] *State Tax Handbook*, CCH Incorporated, 2000.
[2] Apportionment methods from *New Mexico Business Tax Competitiveness Study*, Barents Group, KPMG Peat Marwick, 1997.

Property Taxes

Often the most closely scrutinized and hotly debated taxes are those on property. They are also perhaps the most difficult to compare in that their rates or ratios can vary by taxing districts within a city, by intended use and by a host of other variables. For instance, Arizona, Colorado and Oklahoma have a wide variety of statutory classifications for property tax not common elsewhere.

In determining New Mexico’s property tax competitiveness, again using Albuquerque as the State’s “representative jurisdiction,” the Barents Group looked at the State’s average effective property tax rate for all classes of property, then selected locations within the representative jurisdictions that have tax rates close to the average State tax rate. Detailed tax comparisons (beyond the scope of this assignment) must use current rates from the overlapping taxing bodies and be site and use specific.

The conclusions drawn here, taken largely from the Barents Group’s 1997 study, should be seen as, at best, general indicators of Albuquerque’s property tax competitiveness. According to this study, New Mexico’s property tax burden is one of the lowest of the comparison locations, ranking 3rd out of nine. In addition to its relatively competitive property tax rate structure, New Mexico exempts inventory from its property tax, a considerable plus for many manufacturers, though one often found elsewhere.

Property Tax[1]			
	Effective State/Local Property Tax Rate: Real Property (Per $100 Value)	Effective State/Local Property Tax Rate: Manufacturing Equipment (Per $100 Value)	Effective State/Local Property Tax Rate: Inventories (Per $100 Value)
Arizona (Tucson)	3.75%	3.75%	Exempt
California (Sacramento)	1.032%	1.032%	Exempt
Colorado (Pueblo)	2.639%	2.639%	Exempt
Nevada (Reno)	1.155%	1.155%	Partially Exempt
New Mexico (Albuquerque)	1.1489%	1.1489%	Exempt
Oklahoma (Oklahoma City)	1.48%	1.48%	1.48%
Oregon (Eugene)	1.322%	1.322%	Exempt
Texas (Lewisville)	2.189%	2.189%	2.189%
Utah (Taylorsville)	1.50%	1.50%	Exempt

[1] *New Mexico Business Tax Competitiveness Study*, Barents Group, KPMG Peat Marwick, 1997.

Sales and Use or Gross Receipts Tax

Sales, use and gross receipts taxes are all forms of transaction or consumption taxes. The importance placed on these taxes by corporate decision-makers depends upon the amount, nature and origination/destination of their company's routine transactions. As with other taxes, gauging competitiveness goes well beyond comparing tax rates, and must consider factors such as the specific items or services that are taxed directly or indirectly (i.e. through intermediate taxes such as those on utilities used in the production of the item).

A review strictly of the combined state and local sales/use/gross receipts tax rates misleads one into seeing New Mexico (with Albuquerque its representative jurisdiction) as competitive. But New Mexico is the only one of the comparison states to fully tax office machinery, manufacturing machinery, telecommunications service, data processing and other business services. This can be a significant disadvantage for many types of industries. With manufacturing for instance, five of the eight competing states fully exempt or do not tax manufacturing machinery. For office operations, most of the competing states exempt data processing, business services or both. Furthermore, New Mexico is one of five comparison states that does not exempt utility service at some level. The net effect of the breadth of New Mexico's gross receipts tax is, according to the Barents Group study, a last place (9th) ranking in terms of competitiveness.

Sales and Use or Gross Receipts Tax[1]								
	State Tax Rate	Combined State and Local Tax Rate	Office Machinery	Manufact. Machinery	Utility Service	Telecom Service	Data Process.	Business Service
Arizona (Tucson)	5.00%	8.00%	Fully Taxed	Fully Taxed	Fully Taxed	Fully Taxed	Exempt	Partially Exempt
California (Sacramento)	6.00%	7.75%	Fully Taxed	Fully Taxed	Exempt	Exempt	Exempt	Exempt
Colorado (Pueblo)	3.00%	5.50%	Fully Taxed	Exempt	Partially Exempt	Fully Taxed	Exempt	Exempt
Nevada (Reno)	2.00%	7.00%	Fully Taxed	Fully Taxed	Fully Taxed	Fully Taxed	Fully Taxed	Exempt
New Mexico (Albuquerque)	5.00%	5.5625%	Fully Taxed	Fully Taxed	Fully Taxed	Fully Taxed	Fully Taxed	Fully Taxed

Sales and Use or Gross Receipts Tax[1]								
Oklahoma (Ok. City)	4.50%	6.50%	Fully Taxed	Exempt	Fully Taxed	Fully Taxed	Exempt	Partially Exempt
Oregon (Eugene)	No Tax	No Tax	No Tax	No Tax	No Tax	No Tax	No Tax	No Tax
Texas (Lewisville)	6.25%	7.750%	Fully Taxed	Exempt	Partially Exempt	Fully Taxed	Fully Taxed	Partially Exempt
Utah (Taylorsville)	4.875%	6.125%	Fully Taxed	Exempt	Fully Taxed	Fully Taxed	Exempt	Exempt

[1] *New Mexico Business Tax Competitiveness Study*, Barents Group, KPMG Peat Marwick, 1997.

Aggregate Tax Situation

Absent industry-specific examination, the tax picture in New Mexico is mixed. Based on the Barents Group findings, the State's combined corporate income tax burden appears moderate, its property tax burden seems advantageous, with its gross receipts tax the only considerable disadvantage. But ultimately business investment decisions regarding taxes come down to the net burden or operating cost incurred. When viewed in combination, New Mexico's tax climate versus the competition – due largely to its sales or gross receipts tax burden -- is a decided liability. All told, the Barents Group ranked New Mexico 7th out of the nine comparison states.

With the City of Albuquerque moving toward proactively targeting specific industries, it is beneficial to see how the State's tax climate stacks up along industry lines. Of the seven industries modeled in the Barents Group tax study, New Mexico ranks a consistent 7th for all but one -- Business Services -- where the State ranks last. The chart below shows how the aggregate business tax structures of each of the comparison states rank by industry (most to least competitive), an important consideration when Albuquerque is competing against these states to attract or retain industry-specific investment. Industries considered Albuquerque's targets (based on loose interpretation of various local documents and discussions) have been italicized.

Industry-Specific State Tax Rankings[1]							
Rank	Food Preparation	Electrical Lighting and Wiring	*Electrical Components*	*Laboratory Apparatus*	*Medical Instruments*	Catalog Services	Business Services
1st	Nevada	Nevada	Nevada	Nevada	Nevada	Nevada	Oregon
2nd	Colorado	Colorado	Utah	Utah	Utah	Oregon	Oklahoma
3rd	Utah	Utah	California	Oklahoma	Colorado	Colorado	Nevada
4th	Oklahoma	Oregon	Colorado	Colorado	Oklahoma	California	California
5th	California	Oklahoma	Oklahoma	California	California	Oklahoma	Colorado
6th	Oregon	California	Oregon	Oregon	Oregon	Utah	Utah
7th	New Mexico	New Mexico	New Mexico	New Mexico	New Mexico	New Mexico	Texas
8th	Texas	Texas	Texas	Texas	Texas	Arizona	Arizona
9th	Arizona	Arizona	Arizona	Arizona	Arizona	Texas	New Mexico

[1] *New Mexico Business Tax Competitiveness Study*, Barents Group, KPMG Peat Marwick, 1997.

Quality of Life and Cost of Living

A location's quality of life and cost of living can be hugely important in facility site selection, particularly where extensive employee recruitment or relocation from outside the city is necessary. Although cost of living is relatively easy to measure, quality of life is so subjective that rarely do quantifiable variables or direct location comparisons do it justice.

By most estimates, Albuquerque is an affordable living environment, although so are many of the comparison locations analyzed. Its housing purchase and rental costs, among the largest single cost of living item, are relatively cheap even though housing prices jumped more than 50% from 1990 to 2000. In contrast, its aggregate personal taxes (according to CNNMoney Magazine) and general cost of goods and services (according to the American Chamber of Commerce Researchers Association) tend to be higher than average. In combination, one can surmise that Albuquerque's cost of living would be somewhat of an advantage for labor recruitment and a help in moderating wage rates where skill deficiencies or other competing forces are not at work.

Cost of Living

	Cost of Living Index[1]	Average Housing Price[1]	Apartment Rent: (Avg. Monthly One Bdr)[2]	Home Utility Cost Index[1]	Average State Taxes Paid as Percentage of Income[1]	Misc. Goods & Services Index[3]
Albuquerque, NM	101.0	$131,600	$590	94.9	9.5%	100.9
Austin, TX	96.2	$130,100	NA	89.3	5.0%	NA
Colorado Springs, CO	100.3	$143,800	$630	68.6	5.1%	96.7
Dallas, TX	100.5	$126,000	$730	97.9	5.0%	101.1
Denver, CO	113.0	$170,000	$670	85.3	5.1%	99.6
Las Vegas, NV	105.1	$131,300	$700	108.0	6.6%	107.0
Los Angeles, CA	130.1	$200,600	$760	121.2	7.8%	111.0
Oklahoma City, OK	90.3	$84,600	$480	95.6	7.3%	97.1
Phoenix, AZ	101.6	$127,200	$640	106.5	6.7%	100.6
Portland, OR	111.0	$165,700	$660	80.5	6.3%	106.8
Salt Lake City, UT	107.1	$138,700	$650	79.8	7.8%	99.8
San Antonio, TX	90.2	$91,900	$560	81.2	5.0%	95.7
San Diego, CA	134.6	$230,700	$740	115.0	7.8%	110.2
Tucson, AZ	99.3	$118,700	$610	120.8	6.7%	95.8

[1] CNNMoney.com, 2002. Note: higher cost indices connote higher costs
[2] Places Rated Almanac, 1999.
[3] American Chamber of Commerce Researchers Association (ACCRA), December 2001. Note: higher indices connote higher costs.

On the more qualitative front, Albuquerque is considered by many familiar with the City to be an enjoyable and comfortable place to live and work. The area's pristine natural beauty, moderate climate, and vast recreational and leisure activities can be a huge plus. Still, according to new businesses and those charged with attracting them to the City, Albuquerque can be a difficult place to recruit skilled and professional-level labor, even with its attractive and affordable lifestyle. Cited as perceived problems are limited entertainment options for young professionals and issues surrounding public safety.

Operating Cost Summary

When the major costs are viewed in combination, Albuquerque stands as a fairly affordable environment in which to operate or expand a business. Its wage structure and inexpensive living costs are among its greatest selling points for both employers and the individuals they seek to employ. With that said, the City's relatively high taxes (largely its gross receipts tax) and, to a lesser degree, its power costs hamper its ability to compete for certain industries versus its more accommodating adversaries. But perhaps its greatest obstacle in the attraction, expansion and retention of targeted businesses is not a cost factor. Rather, it is the City's shortage of adequately skilled labor exacerbated by the difficulty businesses have recruiting these individuals from outside the area. For many companies, no operating cost savings or financial inducements can compensate for this shortcoming.

Other factors that have not been examined here, but can be important in business investment decision-making nonetheless, are a critical mass of similar or like-minded employers and "name recognition" in specific industry circles. Based on employer and economic developer comments, Albuquerque may struggle in these areas compared to several of its competitors. But the general impression of Albuquerque as a "pro-business" city helps mitigate these concerns.

A worthy indicator of a location's strengths and weaknesses is how it is viewed by its competitors and how they use their market intelligence to position their own business attraction activities. Corroborating the findings of this study, competing cities appear quickest to point out Albuquerque's labor shortages, electric power costs and gross receipts tax to companies contemplating investment decisions. Conversely, they tend to shy away from direct comparisons with Albuquerque's wage rates and cost of living.

In head-to-head competition for the attraction or retention of investment, Albuquerque is likely to encounter among its staunchest opposition, especially on cost (absent incentives), from Oklahoma City, Las Vegas, Tucson, San Antonio and perhaps Phoenix. The competitor cities with which Albuquerque likely will compete most favorably on cost are also among those with the highest concentrations of skilled and well-trained professional labor, a precious commodity even in today's economy. These include Los Angeles, San Diego, Portland and Austin.

To this point, the operating cost discussion has focused mainly on the entire City of Albuquerque versus its primary competition. But business investment decisions ultimately come down to specific neighborhoods and properties. In Albuquerque, neighborhoods most in need of economic assistance are often those least desirable and more costly from the investor perspective, and residents most desirous of opportunities that the investment generates may be among those least equipped to seize them. These issues and their relation to government intervention through economic development and incentives programs will be part of the discussion to follow.

II. NON-IRB INCENTIVES

The issue of economic development incentives has long been the subject of debate in cities and states throughout the U.S. Many a city has pondered the elimination of investment incentives altogether only to succumb to the realization that these tools or inducements remain a fixture in corporate site selection and expansion decision-making. They fear the opportunity costs of not offering incentives when virtually all competitors do is simply too great. This philosophy is not confined to the business attraction contest; it often applies to business retention and expansion efforts as well.

Because of the proliferation of incentives available and the media coverage surrounding large-scale offerings, most astute corporate investors will inquire as to what might be available to them and then compare the answer to that provided elsewhere. Rightly or wrongly, incentives play a big part in the ultimate investment decision.

A disproportionate amount of incentives are either direct state programs or state-authorized programs (including federal incentives passed through the states). This section compares New Mexico's incentives (those of relevance to Albuquerque) with those of many of its competing states. They include:

- Job Training Incentives
- Miscellaneous Loan Programs
- Non-Location Specific Tax and Other Incentives
- Location or Zone-Specific Incentives

Emphasis here is placed on incentives that are readily available and easily uncovered by knowledgeable site seekers, rather than those negotiated in closed-door sessions. Also de-emphasized here are federal financing programs (such as Community Development Block Grant funds) available in most, if not all, U.S. cities. While often labeled an incentive, detailed discussion of IRBs will be reserved for the next section.

Job Training Incentives

New Mexico prides itself on having a generous and convenient job training program, available to long-standing firms and those new to the State. This is a fair characterization. According to State economic development representatives, the dollar value of New Mexico's training can be $3,000 to $3,500 per trainee, an amount far in excess of the stated value of training offered in any of the competing states. This service is provided within the company's plant and, where requested, by the employers themselves, thus adding convenience and minimizing disruption. In Albuquerque, AED officials state that, for several businesses electing to locate in the City, the In-Plant Training program was the difference maker.

New Mexico has a reputation for funding fairly flexible training to those fortunate enough to receive it. But receiving this service is another matter. In 2001, the State's training allotment for the year was approximately $9 million, with roughly half (according to State representatives) informally earmarked for application in rural areas. Funds, especially for Albuquerque and the State's other urban areas, can evaporate well before the year is out. Retraining and skill upgrading are not eligible uses for the State's training dollars, and only those individuals who are new hires and have resided in New Mexico for one year or more qualify. The end result is that, although recipients clearly benefit, in any given year many desirous businesses will not qualify. Because of its emphasis on new hires, this program falls short as a retention tool to help existing businesses compete with their present complement of labor. It also fails to help new firms retrain their relocated (in-migrated) employees, even when their relocation was intended to compensate for local skill shortages. Although the dollar amount per recipient may be lower elsewhere, the programs of many of the competing states appear to have greater flexibility and are freely applied as both attraction and retention tools.

Known Job Training Incentives	
Arizona	Grants available to new and expanding businesses for customized job training and retraining. Emphasis on businesses undergoing economic conversion. In 2001, total budget was $8 million, of which 25% earmarked for businesses employing fewer than 100, and 25% for rural communities
California	Dollars available in form of reimbursement, for job training or retraining. Funds derived from the Unemployment Insurance System and favor training and placement of unemployed and training incumbent workers of businesses facing out-of-state competition. Program is closely aligned with business community, allowing businesses to control training content and location (classroom, on-the-job, etc.). Reimbursements average $1,200 to $1,600 per employee. Firms must employ workers for three months upon training completion
Colorado	Customized training is available to both new and existing businesses provided that jobs are permanent, non-seasonal and non-retail. Funds go for variety of direct instructional and indirect (location, materials, etc.) costs. For existing industry training, company must provide 40% of the training costs
Nevada	Customized training for new and existing businesses is available, with instruction/curriculum established jointly by the business and the service provider. Employee recruitment and screening provided by training agencies with final selection the responsibility of the business. Company must contribute 25% of the training costs
New Mexico	Training funds are available for existing businesses and those new to the State, with emphasis on manufacturers and non-retail service companies that export their services. This in-plant program requires trainees to have been State residents for at least one year and, upon training completion, they are guaranteed full-time employment. Training is for new hires, no retraining or upgrade skills training of existing employees applies. Program, which can be $3,000 to $3,500 per trainee, pays 100% of classroom training costs and 50% wage reimbursement (Albuquerque). In 2001, State allotment for In-Plant Training was $9 million, with approximately half earmarked for rural areas
Oklahoma	Program funds training or retraining of workers of existing and prospective employers. Training curriculum, instruction and location (including on company site) is flexible. Companies are not required to hire trainees upon training completion, nor are trainees required to take jobs upon training completion. Training, as well as employee screening, provided at no cost to the business
Oregon	Group industry training and individual company training for new and existing firms is available. Companies receiving training support are required to contribute to the training financing and/or cover in-kind expenses and associated costs. State will match 50% company's contribution
Texas	State provides funds for employee training and retraining with emphasis on "high level" positions and occupations of the future. Businesses are afforded flexibility to structure programs, but must provide employer match and agree to employ workers at a certain

Known Job Training Incentives	
	salary for three months upon training completion. Allotment per trainee can be between $2,000 and $3,000. Funds are derived from the Unemployment Insurance Trust Fund
Utah	Training and retraining funds available to existing and incoming firms, with emphasis on traditional manufacturing, advanced manufacturing, information-oriented, and select service industries. Training can be provided in a variety of locations (including at firm's place of business) and is typically short-term (one to four months). To be eligible, most incoming firms must pay a minimum of $9.10 per hour to its workers. State also administers a computerized job-matching program and provides other screening services. Total State contribution may be under $1,000 per trainee

Miscellaneous Loan Programs

In many cases, government or government-supported loans are viewed strictly as financing vehicles and not incentives. Although they can play an important role in helping a business expand or remain viable, they tend not to be examined for comparison purposes in investment decision-making. This is certainly true in today's environment of low interest rates and financial market competition for viable investment projects. Because of their lesser importance in the location selection process, examples of programs have been provided without any intended comparison between states.

One mechanism worth mentioning that often straddles the definition of financing vehicle and incentive is Tax Increment Financing (TIF). TIF can be a powerful tool that enables a city to self-finance important economic development projects. TIF funds can pay for public improvements, cover certain development and redevelopment expenses, and support incentives by using the increased property tax revenue the improvements help generate. In many cases, TIFs (particularly Industrial TIFs) are earmarked specifically for economically stagnant or physically declining areas not expected to receive appreciable private investment without public assistance. Although Albuquerque can point to a number of neighborhoods fitting this description, to date, TIF has been used but once in the City and that was for a downtown hotel and adjoining office development. It is believed that more expanded use of TIF is presently under consideration, but no TIF districts (other than that mentioned) have been designated. Although no information has been provided here, TIF is known to be a tool that several of the competing cities call upon.

Known Miscellaneous Loan Programs (exc. SBA)	
Arizona	Applies State lottery proceeds to an economic development revolving loan fund. Funds go for existing business expansion and new project financing (up to 40%). Revolving loan funds also support a Technology Sector Capital program to grow and develop high-tech establishments
California	Loans and loan guarantees are available for general business development purposes and for specific economic development projects that help address State agenda items such as: energy conservation, hazardous waste reduction, reduction of roadway congestion, defense conversion, and communications enhancement
Colorado	State maintains a revolving loan fund and separate Economic Development Commission funds (requiring a business match) earmarked for high impact, economic development projects (substantial jobs, tax revenue generation, etc.). Other loans may be available based on number of new jobs created at up to $5,000 per new employee
Nevada	A revolving loan fund provides up to $100,000 "gap" financing for businesses unable to

Known Miscellaneous Loan Programs (exc. SBA)	
	secure conventional financing, meeting certain job creation or retention criteria, and willing to fill a percentage of job slots with persons from low to moderate income households
New Mexico	Business loans can be made through the State provided in-state financial institutions are involved and funds go to companies headquartered in the State or who have the majority of their employees in the State. State participation may be up to 80% for loan amounts ranging from $500,000 to $2 million. Funding is derived from the State's Severance Tax Permanent Fund. Communities also can tap into a revolving loan fund for various economic development uses ($250,000 maximum loan)
Oklahoma	Direct loans are available from State's finance authorities for a variety of economic development-related projects. Loans can be secured for up to 66 2/3 of property purchase and development costs on a secured first mortgage and 33 1/3 on a second mortgage. Maximum loan amounts are $2 million for the former and $750,000 for the latter. Businesses with fewer than 200 employees and sales of less than $4 million can receive loans up to $1 million. Additionally, through pooled sales taxes, communities can fund certain construction activities
Oregon	Several loan funds are operated by the State, including a revolving loan fund for development within the State's port districts, a statewide business development fund favoring manufacturing and tourism development, an energy loan program to enhance energy efficiency, and capital access and credit enhancement funds providing loan guarantees and support for "riskier" ventures. Business development loans, for instance, can be a maximum of $500,000 covering up to 40% of project costs. State also has a lottery-generated special works fund for loans up to $10 million and grants up to $500,000
Texas	State offers several direct loan and loan guarantee programs, with preferential treatment applied to those operating in one of the State's designated economic zones. Additionally, communities that agreed to a half cent sales tax increase for economic development purposes have considerable flexibility in the use of the funds, including direct loans and grants
Utah	State's industrial assistance fund serves to incentivize companies for creating "higher-quality" jobs, particularly those in the State's targeted industries, including information technology, biomedicine and aerospace. Funds can be used to repay relocation and expansion costs and become more attractive (such as conversion of loans to grants/loan forgiveness) with higher numbers of qualified jobs created, more Utah purchases made, and so on

Non-Location Tax and Other Incentives

As the number and size of incentives have grown, so has the diversity of options. Tax incentives continue to be offered by high-tax states to level the playing field and low-tax states to accentuate their inherent operating cost advantages. But for some states, this is just the beginning. Treatment of depreciation and operating losses can be altered, utility costs can be reduced, even real estate and other relocation costs can be refunded. Still, the lion's share of savings is derived from direct or indirect tax incentives. In many cases, these programs are presented to businesses absent of need and before being requested.

As previously discussed and illustrated in the Barents Group tax analysis, New Mexico has one of the least competitive tax climates for business of the states analyzed, ranking 7th out of nine. In Albuquerque and the rest of the State, incentives serve to lessen this disparity but do not result in a competitive advantage. Adding each location's "reasonable best case" incentives to the Barents Group's tax model elevates New Mexico's overall tax competitiveness from 7th to 5th, still no more than average among the nine competing states. Based on their business attraction experience, AED officials generally agree that Albuquerque is often hampered by its relatively high tax structure. But they assert that, on several projects, the collection of incentives applied (including IRB) did more than level the playing field, it gave the City a competitive advantage.

State Tax/Incentives Competitiveness Rankings[1]		
Rank	Business Tax Competitiveness *Without* Incentives (Most to Least Competitive)	Business Tax Competitiveness *with* Incentives (Most to Least Competitive)
1st	Nevada	Nevada
2nd	Colorado	Oklahoma
3rd	Oklahoma	Oregon
4th	Utah	Colorado
5th	Oregon	New Mexico
6th	California	Utah
7th	New Mexico	California
8th	Texas	Texas
9th	Arizona	Arizona

[1] *New Mexico Business Tax Competitiveness Study,* Barents Group, KPMG Peat Marwick, 1997.

The Barents Group's study makes two assumptions worth mentioning here. The first is that, in modeling "reasonable best case" incentives, New Mexico companies receiving the modeled incentives (including a property tax and gross receipts tax exemption) must be granted an IRB because, without it, various tax incentives are not available. The reality is that a scant few Albuquerque businesses (and New Mexico businesses in general) ever come in contact with the State's biggest tax-saving incentives, a fact that will be discussed shortly. Secondly, and similarly, the Barents Group's model assumes that companies locating in the other states will set up shop in Enterprise Zones, often the most incentives-rich areas in which to operate. In truth, most do not. So in both cases, the greatest incentives available will go to a small minority of businesses.

While the Barents Group included New Mexico's IRB program in its incentives modeling, this study touches on the IRB program in this section but does not delve deeply into it until Section IV (*Economic Development-IRB Program Alignment*). The rationale for this separation is extremely important. In most of the comparison locations evaluated, in fact with the vast majority of states around the country, IRB programs are designed as financing vehicles distinct and separate from tax incentives. New Mexico's IRB program is quite different. Perhaps initially designed to work within the legal restrictions within the State's Anti-Donation Clause, New Mexico couples its IRB program (that is to say the financing element) with various tax incentives. Businesses not willing, able or interested in pursuing New Mexico's IRBs are ineligible for such tax incentives -- not so in the other locales. Since this latter category includes the majority of businesses, direct incentives comparisons including IRBs would only be relevant to a minority of businesses. Again, this will be the subject of discussion further in this document.

Direct comparison of New Mexico's non-IRB incentives with those of the competing states shows a fairly limited number and variety of programs available, most of which also are found elsewhere. Savings, such as its exemption on property in transit, R&D tax credit, childcare credit and absence of an inventory tax, are commonplace where these taxes are imposed at all. Its communications-related tax incentives (on WATS lines, 1-800 numbers, etc.) are less common but also can be found elsewhere. Perhaps the single most valuable incentive available in New Mexico, behind the State's In-Plant Training program, is its investment tax credit, which can reach tens of millions of dollars given the right levels of investment and job creation. But variations of this incentive exist in several of the comparison states as well.

In recent years, locations have become much more industry-driven with their incentives programs. Their keen desire to diversify and stabilize their economies, capitalize on particular labor skill availability and shore up struggling industry sectors has led them to tailor programs based on specific industry needs. Oklahoma's computer services and aircraft maintenance industry programs, and Oregon's programs geared toward biotechnology and environmental firms are but a few examples. With the exception of the programs previously mentioned, Albuquerque's programs give little indication of specific industries that may be desired.

Known Tax Incentives (exc. Zone-specific)	
Arizona	• Net operating and capital losses may be carried forward for up to five years • Corporate income tax credit equal to 10% of the property cost of pollution control equipment, up to $500,000 annually • R&D tax credit for expenses over $2.5 million and of 20% of qualifying R&D expenses under $2.5 million per year • R&D equipment is exempt from the State's transaction privilege and use tax (State has a transaction privilege tax, not a sales tax) • Machinery and equipment used in manufacturing is exempt from sales and use tax, as is equipment used in R&D, data processing, and some other business services • Credit for 5% of the cost of materials purchased for the construction of manufacturing structures or other eligible structures exceeding $5 million in total construction costs • Manufacturers' and merchants' inventories are tax exempt • Accelerated depreciation is allowed for commercial and industrial personal property • Goods in transit through the State are not taxed
California	• R&D tax credits against corporate income can range from 12% to 24%, as well as an 8% credit for other qualified expenses • Start-up companies and other new manufacturers and R&D operations receive a 5% sales tax exemption • Sales tax exemptions also can be applied to utility service (including telecommunications), data processing and certain other business services • Business inventory is not taxed • A tax credit of 6% is applied for the purchase of manufacturing machinery and equipment • Credits are given for certain child care costs
Colorado	• Tax credits can be applied for such expenses as child care programs, school-to-career initiatives and building rehab • In years of State surplus, income tax credits can be granted for a portion of the personal property (machinery and equipment) tax paid • State sales and use taxes on manufacturing equipment are not collected on purchases over $500 and exemptions also can apply to data processing, business and some utility service • State also does not collect sales and use taxes on component parts, fuels and electricity, packaging materials, biotech equipment and other select equipment • Local governments have the option to rebate or credit up to 50% on manufacturing and equipment tax for up to four years • Business inventory is not taxed

<table>
<tr><th colspan="2">Known Tax Incentives (exc. Zone-specific)</th></tr>
<tr><td>Nevada</td><td>
State has no corporate income tax
State also has no personal income tax
A partial exemption is available for machinery and equipment, provided a $1 million capital investment is made (urban counties)
Industrial businesses purchasing at least $100,000 in capital equipment can defer sales and use tax without interest for up to five years (on certain capital goods purchases)
Personal property tax can be abated for businesses providing adequate paying jobs, generating sufficient investment and achieving other economic development thresholds
Qualified pollution abatement equipment is exempt from personal property tax as are all raw materials and supplies used in manufacturing processes
All personal property in transit through the State (whether being temporarily stored or processed) for use in another state, as well as inventories held for sale within the State, are exempt from property tax
New or expanding businesses averaging $14.61 per hour plus benefits, hiring a minimum of 75 employees, and investing a minimum of $1 million may qualify for a partial tax exemption (urban counties)
</td></tr>
<tr><td>New Mexico</td><td>
State imposes a gross receipts tax, not a sales tax. Under this tax, certain deductions and exemptions are afforded, such as those associated with export of goods and services and the provision of WATS lines, 1-800 numbers, and private communication services
Optional double weighted sales formula for apportioning corporate income of multi-state corporations. Thus, potential for export-oriented businesses to, at their discretion, shift some burden away from corporate income tax, instead taxing small percentage of sales within State
Property in transit through the State or warehoused for delivery out-of-state is tax exempt
Business inventory is not taxed
For IRB recipients (to be discussed shortly), property taxes on eligible facilities can be abated for up to 20 years (Albuquerque), though compensatory services or payments may be requested. IRB recipients also avoid State's portion of the tax on machinery and equipment. Note that property tax exemptions and gross receipts and compensating tax deductions are attached to the use of industrial revenue bonds (i.e. not treated as independent incentives or programs)
Investment tax credit can be applied to the purchase of qualified equipment used in the manufacturing process. Criteria are: employment of one new full-time equivalent (FTE) for each $250,000 in equipment for a credit up to $2 million; one new FTE for each $500,000 in equipment for a credit of $2 million to $30 million; and one new FTE for each $1 million in equipment for a credit of over $30 million
Technology jobs tax credit of 4% of eligible R&D expenses, such as facility rent, operation and maintenance is available (not for IRB facilities). To receive an additional 4% (8% in total), base payroll expenses must increase by $75,000 for every $1 million of investment for which the credit is claimed
R&D services performed in the State for export out-of-state are exempt from the State portion of the gross receipts tax
Credits of 30% are given for the cost of corporate-sponsored child care, not to exceed $30,000 per year
</td></tr>
<tr><td>Oklahoma</td><td>
Various income tax credits for manufacturers and some service operations are available and can be carried forward for up to 20 years
Through the State's job creation tax credit for manufacturing operations, a credit of 1% on corporate income tax is allowed for investment in certain depreciable property
Or a $500 credit is allowed for each new FTE manufacturing employee (not both). The credit doubles if the company invests $40 million or more in the first three years and does not decrease employment
Computer services, data processing and R&D firms can receive a $500 credit for each new employee earning $35,000 or more
</td></tr>
</table>

Known Tax Incentives (exc. Zone-specific)	
	• Corporations assisting small businesses with technology transfer receive special income tax exemptions and products developed (invented) and manufactured in the State are exempt from income tax for seven years • Exempt from sales tax are: machinery and equipment used in manufacturing, tangible personal property that becomes part of a finished product, fuel, interstate 1-800, WATS and private-line telecommunications systems, data processing, certain containers and packaging materials, waste treatment machinery, equipment and inputs • Also exempt from sales tax are machinery and equipment purchased and used by computer service and data processing companies with significant out-of-state sales • Refunds on sales taxes on construction materials are available for manufacturers provided they meet certain construction cost/investment and job creation thresholds • Sales tax exemptions are available to businesses for purchase of computers, data processing equipment, related peripherals and telecom equipment provided at least half the annual gross revenue is from outside the State. Companies with at least 75% annual gross receipts from R&D, employing at least 10 new workers at acceptable salary levels are also eligible • Additional sales tax exemptions may apply to new or existing aircraft maintenance firms • Some real property and personal property exemptions are available at the local level • State can reimburse counties for a five-year ad valorem tax exemption for new, expanded, or acquired facilities used for manufacturing; R&D; computer service; data processing; and certain distribution operations. Real and personal property is eligible provided payroll and capital investment thresholds are maintained • Items stored or processed in the State and shipped out within nine months are not subject to ad valorem tax and property moving through the State within three months not subject to the State's inventory tax • Qualifying businesses in targeted sectors (central administrative offices, manufacturing, R&D, or select service operations) creating "many" jobs (not necessarily full-time) with 75% or more of sales to out-of-state customers can receive quarterly cash payments of up to 5% of new taxable payroll for up to 10 years • Qualifying smaller businesses in "basic industry" (no more than 90 employees) can receive annual cash back payments of 5% for up to five years • Credits are given for corporate-sponsored child care expenses
Oregon	• State levies no sales or use tax • State's strategic investments program exempt from property tax major portions of large capital investment (that over $100 million). This applies to the State's targeted industries • Commercial facilities under construction are exempt from property tax during their construction period (up to two years) • All personal property in transit through the State (whether temporarily stored or processed) for use in another state are exempt from property tax • Business inventory is not taxed • Various energy and environmental tax credits are available including: 35% corporate tax credit for companies acquiring pollution control equipment, plastics recycling equipment, energy efficient equipment, telecom equipment, or offering company van pools • R&D credit of up to $500,000 is available for those increasing research expenditures in computing, advanced materials, biotechnology, electronic device technology, and environmental technology • Credits are also given for companies providing dependent care facilities
Texas	• State has no personal income tax or corporate income tax (weight is on franchise tax) • Sales and use tax exemptions are granted on machinery and equipment used in manufacturing • Sales and use tax exemption also applies to utilities (natural gas and electricity) provided in the manufacturing process. Business services are also partially exempt • Businesses that estimate and prepay sales and use tax may be eligible for a 1.25%

Known Tax Incentives (exc. Zone-specific)	
	deduction • Local governments have the option to exempt personal property assembled, stored or processed within the State if shipped out within 175 days • R&D credit of 5% of qualified expenses can be taken against the State's franchise tax • Job creation tax credit can be taken for 25% of wages paid for new qualifying (well paying) jobs within targeted industries – central administrative offices, data processing, warehousing and distribution, and R&D • Capital investment credit can be taken equal to 7.5% of the qualified investment amount (minimum $500,000) provided the company pay scale exceeds the County average and includes health insurance • Some exemptions apply to construction or installation of certain energy efficiency equipment • Miscellaneous other tax incentives can be provided at the local level through a ½ cent sales tax increase earmarked for economic development
Utah	• Machinery and equipment used in manufacturing are exempt from sales and use tax • Data processing and business services are also exempt from sales and use tax, as is pollution control equipment • Business inventory is not taxed • Until 2010, businesses engaging in qualified research are eligible for research tax credit of 6% on eligible machinery, equipment and other expenses • Incentives are provided to certain employees of qualified newly arriving businesses, such as discounted mortgage points, reimbursement of moving and storage costs, and reduction of realtor fees

Location or Zone-Specific Incentives

As with all the comparison cities, Albuquerque has pockets of poverty. But unlike all the other cities with the exception of Las Vegas, it has no incentives zones specifically targeting these needy neighborhoods (UDAG and CDBG funds notwithstanding). Consequently, neighborhood-based businesses struggling in these environments and organizations promoting these neighborhoods in order to attract investment are left to their own devices with minimal financial inducement to call upon.

The most common and recognizable zone incentives are Enterprise Zones. These state and/or federally designated programs can provide a range of desirable cost savings including: income, sales, and property tax credits or exemptions; expanded job training funds; development fee waivers; reduced utility costs; and grants and low interest loans. While some question the lasting net benefits to the community of such programs, few dispute the positive impact that they can have on a company-by-company basis. These programs can be especially useful when combined with site redevelopment initiatives, such as Brownfields, where the community's best prospects for economic stability involve the conversion of large, environmentally contaminated properties – an issue presently facing the City of Albuquerque.

According to Albuquerque's Office of Economic Development, the State has never established the Enterprise Zone mechanism. The City did apply for federal Enterprise Zone designation but was denied. But Enterprise Zones are not the only mechanisms used to earmark funds and tax savings to areas in need. For instance, Los Angeles has targeted Revitalization Zones with different incentives but a similar mission, as does

Portland through its Urban Renewal Zones. Recently, Albuquerque did receive the federal designation of Enterprise Community, but the benefits of this designation went to the development of a chamber of commerce-administered Business Assistance Center. The City is home to a Foreign Trade Zone (as are most of the comparison cities), which provides international trade-related assistance to export-oriented firms.

Known Enterprise and Other Incentive Zones[1]	
Arizona	*Enterprise Zones*: Include state income tax credits up to $3,000 per qualified new employee over three years and up to 80% property tax reduction for manufacturers investing a minimum of $2 million [Includes the Phoenix and Tucson areas] *Foreign Trade Zones*: Include customs/duties savings, special customs assistance, and property tax incentives for export-oriented firms [Includes the Phoenix and Tucson areas]
California	*Enterprise Zones*: Include sales and hiring tax credits, income tax credits for the first $20 million in machinery and equipment (equal to the sales and use tax paid), waivers or reductions of local fees, accelerated depreciation of qualified property, and expedited permitting [Includes the Los Angeles and San Diego areas] *Revitalization Zones*: Include certain sales tax credits for the purchase of property and credits on wages paid to qualified individuals [Includes the Los Angeles area] *Foreign Trade Zones*: Include customs/duties savings and special customs assistance for export-oriented firms [Includes the Los Angeles and San Diego areas]
Colorado	*Enterprise Zones*: Include income tax credit equal to 3% of the investment amount up to $5,000 per year plus 50% of the tax liability above $5,000. Also, $500 per new employee, 10% income tax credit off of job training expenses, 25% credit up to $100,000 for reuse of older structures in the zone, and R&D tax credit of 3%. Certain property tax rebates/credits and sales tax exemptions also can apply [Includes the Colorado Springs and Denver areas] *Foreign Trade Zones*: Include customs/duties savings and special customs assistance for export-oriented firms [Includes the Colorado Springs and Denver areas]
Nevada	*Foreign Trade Zones*: Include customs/duties savings and special customs assistance for export-oriented firms [Includes the Las Vegas area]
New Mexico	*Foreign Trade Zones*: Include customs/duties savings and special customs assistance for export-oriented firms [Includes Albuquerque]
Oklahoma	*Enterprise Zones*: Include exemption on local property taxes for up to six years. Other local tax rebates may apply, potentially matched by incentives at the State level. Also, standard (non-Zone) State investment/jobs tax credits can be doubled and low interest loans can be provided [Includes the Oklahoma City area] *Foreign Trade Zones*: Include customs/duties savings and special customs assistance for export-oriented firms [Includes the Oklahoma City area]
Oregon	*Enterprise Zones*: Include three to five year property tax exemption of 100% on new construction and most machinery and equipment with a maximum of $10,000 per job created. Can also provide credits for certain payroll and employee benefits costs [Includes the Portland area] *Urban Renewal Zones*: Include array of low interest loans, job training subsidies and other financial support [Includes the Portland area]
Texas	*Enterprise Zones*: Include refund of up to $1.25 million in sales and use tax for new or retained jobs, and franchise tax reduction of either 50% of the increased apportioned taxable capital or 5% of the apportioned earned surplus income (up to five years). Also potential is a refund of sales and use taxes paid on building materials, machinery and equipment, and other costs for building rehab and natural gas and electricity. Additional incentives can include real and personal property tax abatement, certain local sales tax refunds, reduced utility costs, and low interest loans through State Treasurer's linked deposit program [Includes the Dallas and San Antonio areas] *Reinvestment Zones*: Include ad valorem tax abatements on portion of real and personal property for up to 10 years (five years with a five year renewal option) [Includes the

Known Enterprise and Other Incentive Zones[1]	
	Dallas and San Antonio areas] *Foreign Trade Zones*: Include customs/duties savings and special customs assistance for export-oriented firms [Includes the Austin, Dallas and San Antonio areas]
Utah	*Enterprise Zones*: Include (for up to 30 employees per year) a $750 credit for new jobs created, an additional $500 per job if paid at least 125% of County average monthly wage, and an additional $200 per job insured by an employer-sponsored health insurance program where at least half is paid by the employer. Additional incentives include annual tax credit of 10% of the first $250,000 invested and 5% of the next million invested in qualifying facility, equipment or other depreciable property. Also available is a 25% credit of the first $200,000 spent on rehabbing vacant buildings in the Zone [Includes the Salt Lake City area] *Recycling Market Development Zones*: Include income tax credit for costs associated with collecting, processing, handling or using recycled materials – 5% on machinery and equipment and 20% (up to $2,000) on eligible operating expenses [Includes the Salt Lake City area]

[1] Note: certain Zone programs cannot be used in combination with other incentives programs.
Sources of incentives information:
Area Development Magazine, 2001.
Economic Development Tax Incentives in New Mexico and Other States, Bureau of Business and Economic Research, University of New Mexico, 1996.
New Mexico Business Tax Competitiveness Study, Barents Group, KPMG Peat Marwick, 1997.
State Tax Handbook, CCH Incorporated, 2000.
Economic Development Materials (Brochures, Web Sites, etc.) of Various State and Local Economic Development Organizations, 1998-2002.

Incentives Analysis Summary

When all costs are considered, Albuquerque is a fairly affordable operating environment. But for businesses likely to shoulder a larger share of the tax burden, or others susceptible to high taxes, the City's tax climate places it at a notable disadvantage versus many locations with which it competes. The application of tax-saving incentives is virtually the only mechanism the City has to narrow this cost gap. Without the use of these programs, Albuquerque faces an uphill battle when it comes to attracting or retaining "tax-sensitive" business investment. Modeled results and economic development marketing experiences show that when incentives are applied (including IRB), the City can compete effectively, if not gain a cost advantage, over its adversaries.

From a competitive standpoint, New Mexico's in-plant job training program, especially the potential amount available per trainee, can be a real asset for expanding firms that are hiring State residents (funding permitting), but it may do little for local firms struggling to compete or survive. The City has access to other incentives programs beneficial to new and established firms but few that are not also found among the competition. In contrast, a wide variety of exemptions and incentives programs that are found elsewhere are not available to Albuquerque businesses.

City leadership, economic development professionals and their allies are concerned about the economic disparity that exists between Albuquerque's more versus less fortunate neighborhoods. They are anxious to improve the situation and provide opportunity where it is needed the most. But Albuquerque has few incentives programs expressly designed to help achieve this objective and, unlike most of its competitors, has none that are economic zone-specific. The responsibility of helping these neighborhoods and local businesses, therefore, hinges on the City's ability to channel its non-financial services appropriately, leverage and work in concert with the various neighborhood and local business organizations, and connect those in need with the broader programs at its disposal. These responsibilities will be touched on further in this report.

Albuquerque's economic development representatives are quick to emphasize that its programs are intended as much for local business retention and expansion as they are attraction of outside investment. Incentives documentation shows nothing that would question this assertion. However, some of the stipulations that dictate program eligibility and the absence of programs clearly packaged with the local audience in mind, may have the unintended consequence of favoring new businesses making sizable facility investments.

III. IRB PROGRAM MECHANICS

Albuquerque's IRB program has the distinction of being one of a very small handful of programs nationwide that formally couple traditional bond financing with the provision of tax incentives. In the vast majority of U.S. locations, tax incentives are a distinct beast, with their own brand of decision-making, processing and potential enforcement. As pure financing mechanisms, IRBs elsewhere are rarely controversial and receive a small fraction of the scrutiny or public interest common in Albuquerque.

What follows is a dissection of Albuquerque's IRB program along specific categories. Observations and recommendations are intertwined in each category so that, if it chooses, the City can enhance discrete elements of the IRB program in a manageable fashion. These categories are:

- Goals and Audience
- Volume and Levels
- Due Diligence
- Application Process and Cost
- Compliance Enforcement

Goals and Audience

Albuquerque's IRB program suffers from unclear goals or, at least, those that are poorly articulated to the community and target audience. Any preference the City may have for aiding long-standing local versus new firms, small versus large companies, traditional core industries versus those that diversify the economic base is not readily apparent. Goals typically are couched in very general terms, such as job creation, investment stimulation and wealth generation. If the City has a clear notion of the types of firms it wishes to support through its IRBs, this notion is neither reflected in the way it portrays the program or in the companies that have received IRBs.

A lack of clarity regarding IRB usage is not unusual nationally. IRB programs rarely target specific industries, types of companies or even local versus outside firms. In the eyes of their issuers, because they are not giving something away, they are treated more as an entitlement, going to those with demonstrated need and the ability to repay. Tax incentives, to the contrary, often have an element of targeting attached, whether it is targeting industries, specific job types or preferred investment. Albuquerque's IRB situation with regard to goal setting is complicated in that businesses seeking financing are held to the same standards as those seeking tax breaks because they are derived from the same instrument.

In Albuquerque, IRBs are applied for both the attraction of new industry and the support of local firms. A review of IRB issuance in Albuquerque from 1983 to 2000 reveals an almost even split between the two. Although IRBs in other cities often are provided to incoming businesses, they are not viewed as a business attraction tool. Because they are simply a financing vehicle that virtually everyone has, they provide neither a competitive advantage nor disadvantage. In Albuquerque, IRBs are aggressively marketed to woo business because they are the primary tax incentive available. When Albuquerque businesses and local economic development professionals claim the IRB was a "difference maker," it is the tax component that they most often are referencing.

Granting the tax incentive part of the IRB allows Albuquerque to overcome inherent operating cost (especially tax-related) obstacles and compete favorably with its more aggressive adversaries. The absence of such an incentive would place the City at a decided disadvantage.

It is not unusual for communities to grant IRBs to local businesses seeking to enhance their production capacity or efficiency even when job creation is not at issue. This is one reason that IRBs are allowed for equipment-only projects, not just those where facility space is being created or enlarged. But again, these are financing mechanisms, not incentives. However, other cities also offer tax and other incentives strictly for business retention with no requirement for future job or investment growth. By contrast, the loudest opposition to IRB usage in Albuquerque arose when the tool was applied to prevent job loss and potential decline of Philips Semiconductor. Although ultimately granted, the concept of IRBs as a retention tool remains a new one for Albuquerque.

Albuquerque's IRB program seems unintentionally skewed toward larger firms with seemingly greater financial wherewithal than their counterparts. This appears far more a function of the cost prohibitiveness of the IRB process, lack of program knowledge in the local business community, and real and perceived "politicking" that occurs. As will be discussed shortly, the solution may involve easing the cost burden, improving access and eliminating the mystery surrounding the IRB decision-making process.

Today, much about the IRB program's objectives remains unclear. Specifically, how does the program fit with the City's support of its workforce agenda, touted industries of the future, minority participation and improvement to quality of life? If the goals of the IRB program are intended to mesh with those of the economic development effort overall, that should be made clear and acted upon. If, for instance, small Albuquerque firms are of paramount importance, then the level of City effort to assist these firms must be commensurate. This means additional outreach, IRB education, technical assistance and cost subsidies. It also may need to mean a higher level or longer duration of abatement, eased restrictions for approval and streamlined processes. Short of these changes, the program will continue to unintentionally favor those less needy.

Volume and Levels

From 1978 to 2000, Albuquerque issued 68 IRBs, averaging roughly three per year. But half of all the issues over this 23-year period (for which IRB records were provided), occurred from 1995 to 2000. So after 17 years of roughly two IRBs per year, IRB issuance jumped to almost six per year in the last half-decade or so. Several reasons account for this increased activity, most notably rapid economic growth, increased awareness through AED and City marketing, and heightened competition for investment.

In the twelve months or so preceding this study, Albuquerque did not issue any IRBs. In contrast, in 2001, one of the comparison cities (Salt Lake City) issued two IRBs, three cities issued one each, and six cities issued none. No IRB historical information on these cities was provided.

In the 1990s, companies secured additional IRB approval with more frequency than in past decades. So while the number of issues grew rapidly, many companies received multiple IRBs. Based on City records, from 1990 to 2000, four companies had been awarded two IRBs each and one company had received three. One reason that companies have returned for additional IRBs with some frequency is that Albuquerque does not subscribe to the "line of credit" approach to IRB usage. In other jurisdictions, as has been the case with Intel in Sandoval County, IRBs are provided that allow a company to invest some of the funds quickly and use the balance at a later date without the requirement to reapply for additional financing. Albuquerque currently has no project structured in this fashion, consequently, growing companies or those requiring additional facility investment or retooling may need to repeatedly refinance. This is especially common among high-tech operations where constant facility refinement is required in order to remain competitive and current.

As data provided by the Albuquerque Office of Economic Development indicate, from 1983 to 2001, roughly two-thirds of all IRBs issued went to private businesses, roughly 30% went to health care entities, and the balance to educational and research operations. The total investment over this period was roughly $1.4 billion.

Historically, the City of Albuquerque's records are most detailed for business recipients. These records indicate that, from 1980 to 2000, issues followed virtually no discernible industry pattern or preference other than that they favored manufacturers. The vast majority of the IRBs issued from 1990 to the present were for manufacturers, with a fairly even split between more traditional and more advanced operations (though this distinction is difficult to make). Of the relatively small percentage of IRBs issued to back office operations, the majority came in the later half of the 1990s and 2000.

Cross-Section of Private Sector IRB Recipients by Industry	
Defense Avionics	Customer Service – Internet
Manufactured Homes	Industrial Pumps
Medical Research	Optical Lenses
Trailers	Food Products
Advanced Ceramics	Wound Closure Materials
Semiconductors (2)	Cereal
General Aviation	Circuit Board Assembly
Paper Products	Epitaxial Wafers
Wireless Microphones	Insurance Claims Processing
Airline Reservations	Commercial Printing
Turbo Generators	Customer Service – Phones
Pharmaceutical Distribution	Corporate Headquarters
Plastics Components	

Source: Albuquerque Office of Economic Development, 2002. IRBs issued 1980 to 2000.

Although no clear industrial pattern emerged from the IRB research performed, there was an obvious pattern of IRB geographic distribution and distribution by company employment size. Roughly 60% of all IRBs issued from 1980 to 2000 in Albuquerque went to operations in the City's Northeast quadrant. Another 23% were issued to operations in the City's Southeast. Only 6% and 11% were issued in Northwest and Southwest Albuquerque, respectively. But, as previously stated, a number of these issues were multiple IRBs to the same firms. From 1980 to 2000, roughly two-thirds of all IRBs were issued to companies with more than 100 employees (or those expected to reach that level within two years). Almost one-fourth of the IRB recipients had, or expected to soon have, at least 250 employees. While perhaps due to the general migration of the City's economic activity or available land for commercial and industrial development, the rationale for, or cause of, the geographic distribution warrants further evaluation. Distribution by company employment size should also be more closely examined.

The current portfolio of IRBs ranges in size from roughly $2 million to $400 million. The lower end of the range could drop to $1 million but, as will be discussed, at this level cost effectiveness becomes an issue. Projects range from 11 to 30 years, the latter being the maximum allowed in New Mexico. Presently, the maximum allowed in the City of Albuquerque is 20 years. Federal law allows IRBs to go out 120% of the useful life of the asset. But as a practical matter, most banks will place their own more restrictive, more cautious limits.

Albuquerque offers a flat 100% tax abatement to IRB recipients. So although the City may have the authority to adjust abatement levels should it so desire, presently it chooses not to do so. Commonly elsewhere, tax abatement is at a level less than 100%, for a period less than 20 years, or both. But also common elsewhere is a wider selection of incentives than that found in Albuquerque.

It would appear as if the City could more closely align tax abatement levels with its economic development goals. For instance, the City could reserve the 100% abatement for companies whose project-related benefits come closest to meeting the City's economic development objectives and reduce the abatement levels by some commensurate amount for those that do not. Objectives need not be job or wage-related. They could include development of preferred industries, channeling of benefits to needy neighborhoods, procurement of local products or services, and so on. Obviously, this only can be accomplished if City economic development objectives are clear, achievable and measurable. Today they are not.

Should Albuquerque proceed down the path of adjusting its IRB-related tax incentives, it must do so cautiously. Most of Albuquerque's competitors have wide and deep menus of incentives from which to choose. Adjustments to one incentive can be offset by the many others also available. Albuquerque does not have this luxury as its menu of incentives is limited.

Most of Albuquerque's IRB discussion revolves around the use of taxable IRBs, because it is here where the tax incentives come into play. Albuquerque may be under-utilizing tax-exempt issues, particularly for manufacturing projects under $10 million. Tax-exempt IRBs tend to require more administrative processing, higher legal fees and demand greater project specificity (amount, usage and timing) than taxable IRBs. Also, due to State-dictated allocation of volume cap, they require considerable interaction with State Government. Still, for small manufacturers in need of a relatively modest amount of project financing, this is a source that should not be overlooked, especially in Albuquerque where many businesses are either unwilling or financially unable to pursue taxable IRBs. Easing the costs of and processes by which Albuquerque businesses access tax-exempt IRBs should be a responsibility of the City's economic development personnel.

Due Diligence

The City of Albuquerque has been criticized for inadequate due diligence in the IRB process. The truth is that, although more could be done, Albuquerque applies a greater and more thorough level of due diligence than that found in almost all of the comparison locations. This is due, in part, to the fact that, in the other locales, IRBs are a funding mechanism with no tax incentives provided. Still, the comparison locations often apply a less stringent level of due diligence to many of their tax incentives as well. In Albuquerque, inadequate funding and staffing dedicated to the IRB program can be directly blamed for poor record-keeping and very limited project follow-up, both areas in need of improvement.

The City requires all IRB applicants to provide information on their companies, project plans, projected job creation, accompanying salary ranges, anticipated local hires, use of additional City or State programs, impact on competition, and other general items. Upon receipt of the IRB, these companies then are expected to annually report the progress of their funded projects. In theory this process is an acceptable one; in practice it falls short because no audit trail exists.

Albuquerque's historical IRB files are poor because prior to the late 1990s, only limited company reporting was required. In recent years, annual reporting has become a requirement and compliance with this requirement is good. However, the level of information requested is meager. Further, the information that does arrive is not analyzed carefully. For instance, no real effort is put forth to compare projected job creation and other projected benefits with that which has actually occurred. In at least one instance, it is believed that an IRB was issued to a business that has since transferred ownership, yet the property incentive remains active. Plugging the holes in Albuquerque's IRB reporting, record-keeping, and progress tracking is essential if the program's success is to be properly measured over time. This should involve, at a minimum, ensuring that all progress documents are submitted in a timely fashion -- ideally semi-annually and electronically -- and upon receipt, statements of progress are carefully examined and reconciled against expectations.

As stated, the City does gather base level company information in its IRB decision-making and subsequent reporting, but this information is both sketchy and not well linked to the economic development objectives of the City. In addition to the questions posed in Albuquerque, other cities like those in Arizona and Colorado inquire deeper into the following:

- Direct correlation between expected project outcomes and community goals
- Short-term versus long-term job creation
- Potential job shifting to one neighborhood at the expense of another
- Alternative funding used or sought, in addition to other State and local programs
- Arrangements for credit enhancement
- Level of pre-IRB permit approval (where applicable)
- Examination of applicant partners, developers and others involved
- Appraisals, environmental assessments and employment plans

Based on community outreach, residents also believe the applicant's operating history in other communities, relationship with employees, and utility (particularly water) usage should also be carefully examined. If the City is to expand its data collection efforts, it may wish to look at the County of Bernalillo's printed IRB project criteria for insight. Expectations, processes and criteria are all fairly well spelled out in the County's IRB documentation, although a number of the above factors are not included.

Of the 10 comparison locations, only Albuquerque and Salt Lake City apply decision models to their incentives. In most cases they are not applied for fear they will stymie debate and essential examination of a more qualitative nature. In the case of Albuquerque, an impact model is applied to determine whether projected benefits of the project justify the "costs." It must be clearly understood that the model applied in Albuquerque is a Fiscal Impact Model, not an Economic Impact Model. Based on information supplied by the company, the model calculates taxes generated versus project costs to the City. The net difference, in theory, is used to determine the extent to which granting the IRB will have a fiscally positive or negative effect on Albuquerque. The non-fiscal economic benefits of the project are not modeled, nor are the costs of a non-fiscal nature. At one point, the Fiscal Impact Analysis was performed internally by the Office of Economic Development. Today, it is outsourced to Brian McDonald, previously the head of University of New Mexico's Bureau of Business and Economic Research and the model's author.

The model applied today is a logical and valuable tool in the IRB evaluation process, yet it is not without flaws. One significant problem with the Fiscal Impact Model pertains to the way it defines cost. The model treats foregone property tax as a loss to the City (i.e. an out-of-pocket expense), when, in fact, without the IRB there would be no project and, therefore, no project-based tax generated. Under these scenarios, in order for company benefits to outweigh costs they must not only exceed legitimate costs but also the fictitious loss of foregone property tax. This is no small quirk in the model.

In the case of Philips Semiconductors (Series 2000), the model, treating $8.2 million in foregone property tax as a loss to the City, calculated substantial losses in project years four through 13. Removing this amount from the loss column and performing the same calculation more accurately shows sizable estimated gains in all 20 years modeled (i.e. no net loss whatsoever). In the case of EMCORE Corporation (Series 2000), a calculated loss in project year one would have, and should have, been reflected as a gain in that year and considerably larger gains in all subsequent project years. In the case of EMCORE, the foregone property tax was categorized incorrectly as a $2.6 million loss to the City. In both instances, and in many others, calculations that wrongly treated foregone property tax as a loss were factored into City IRB decision-making and influenced the way in which the general public viewed these projects.

Both the pre- and post modeling conducted (the latter performed on behalf of this project) were done by the model's author, who agrees that addressing this flaw would more accurately reflect the fiscal impact of the modeled projects. It is important to note that treating foregone property tax as a cost was mandated by the Office of Economic Development and not originally designed by the model's author. Lesser issues with the Fiscal Impact Model include the fact that: 1) it makes no distinction between individuals hired from within or outside the City, 2) it does not distinguish between full-time and part-time hires, and 3) it does not reflect current interest rates or minor adjustments made to State tax policy since the model's inception.

With the exception of the treatment of foregone property tax, the Fiscal Impact Model applied by the City is an excellent tool that, if correctly interpreted by decision-makers, places the City at a research level beyond that of its competition. Furthermore, Albuquerque properly uses its Fiscal Impact Model as one of several inputs considered in IRB decision-making. In cases in which the model calculated a net loss, IRBs were still granted. This is not inappropriate provided that these projects are also loosely examined in the context of their achievement of economic development objectives.

In addition to the Fiscal Impact Model, the City has access to one of the nation's better econometric models (input-output models) developed by REMI Inc. By examining the connections between 53 different industry sectors, the REMI model allows its user to pinpoint the specific sectors of the economy most likely to be impacted by a new project. Applying this model would allow Albuquerque to examine the project in the context of the City's target industries, to identify suppliers and consumers most likely to be impacted, and would aid in cost-benefit modeling. As of this writing, the REMI model is neither a part of the City's IRB due diligence nor its economic development planning efforts.

The due diligence process applied by the City emphasizes job creation over all else. Business leaders rightly argue that their ability to remain competitive hinges on remaining technologically current and having adequately configured facility space. To them, the IRB process undervalues the importance of capital investment which, as Albuquerque has seen, may generate no new jobs whatsoever. This is the very issue that many of Albuquerque's target industries wrestle with most. If due diligence is to drive

IRB decisions moving forward, the economic development needs of the City must be better reconciled with the business processes of today's and tomorrow's borrowers.

In 1999 and early 2000, the Office of Economic Development employed a staff member dedicated to the City's IRB program. This individual resigned in late 2000 and the position remained vacant until it was eliminated from the City's 2002 Budget. Today, the Office has one individual charged with this responsibility as well as a multitude of other management, administrative, communication, tourism and business assistance functions. This level of IRB staff commitment is not considerably lower than most of the cities evaluated. But these other cities do not place the same importance on IRB evaluation and decision-making that Albuquerque does.

Since the commencement of this study, one of the Office of Economic Development's three remaining professionals was laid off for budgetary reasons. If the City is to improve its IRB record-keeping, monitoring, measurement and follow-up, it will need to either increase its dedicated IRB staff or fund the outsourcing of this function to properly trained individuals. Presently, the City appears to be headed in the opposite direction.

Application Process and Cost

The IRB process as it stands today is cumbersome and inconsistent, lacking both fairness and transparency. Approval is a drawn out, linear undertaking with few economies of scale and, consequently, little efficiency. Further, although it follows an established sequence of approval layers, at any point in the IRB process a party either in or outside government can influence negotiations. In essence, the sequence of involvement described by City staff and IRB applicants is as follows:

IRB Involvement
Pre-Submission 1. Albuquerque Economic Development 2. City Office of Economic Development and Mayor's Office 3. Development Commission 4. Individual City Council Members
Submission and Post-Submission 1. Development Commission 2. City Council (Committee and Public Hearings) and Fiscal Impact Analysis 3. Mayor's Office 4. Legislation and City Decision

The pre-submission phase is a series of individual and group discussions designed to generate awareness of and support for the project well before an application is put forth. AED and the Office of Economic Development separately examine the merits of the project in terms of their understanding of City goals and the likelihood of IRB passage. If the project is not considered to have what it takes to succeed, it will likely advance no further in the process. It is at this point where the "but-for" clause is invoked. Companies likely deemed to proceed with the project without the IRB may be denied here as well. Only those that would not invest in Albuquerque "but-for" the IRB are recommended to the City for consideration. This is based largely on stated company opinion.

It is not uncommon at the pre-submission stage for the company to meet individually with each City Councilor to gauge their general level of interest and constituent needs that may require addressing through in-kind or other contributions. Companies with the financial resources to do so often hire consultants to walk them through this stage of the process and begin what is, in essence, subtle lobbying. The intent on the part of the business is to glean interest before committing substantial dollars for IRB submission, administrative and legal expenses. Some Councilors, however, use this as an opportunity to suggest pet projects of interest to them – those that the applicant should consider supporting monetarily or through in-kind means. Examples of the support companies have been compelled to provide include: financial contributions for public school construction, financial contributions to conservation activities, dedication of company-owned land for public purpose, and support of at-risk youth programs. In order for the IRB application to continue through the process, it typically needs a City Councilor serving as its sponsor and champion.

Companies interviewed believe the IRB process continues to get progressively more difficult. They observe that, once previous applicants comply with a particular City Council demand for support, that request (or a variation of it) is added to the list made to the next applicant. The issue on the part of business is not that they are required to give back to the community in some fashion in exchange for IRB. Rather, the concern is the extremely unpredictable and often excessive nature of the demands, and the fact that they can surface after all IRB negotiations are deemed complete. Requesting "add-ons" in exchange for funding and tax breaks is not necessarily unusual nationally, though the arbitrariness and extent to which Albuquerque applies this practice is.

With every IRB application, the public is invited to comment, typically through public hearings. In Albuquerque, the public has numerous opportunities to do so (including at the times of Development Commission Review and the multiple City Council Committee Hearings). In fact, public notice and involvement appears as extensive here as in the comparison locations. But public involvement should not be confused with public influence. In Albuquerque, by the time the public is invited to respond, the IRB request has been reviewed at least once by virtually all government decision-makers and often negotiations between business and the City are at an advanced stage. The extensive activities that commonly precede public involvement call into question the ability for public opinion to influence IRB decisions. Community groups opposed to IRB issues claim that, in addition to being brought into the process late, they often do not receive adequate advance notification of upcoming IRB hearings.

Privacy is a concern among businesses with virtually all public incentive programs. This is a major concern of interviewed Albuquerque businesses, especially given the number of opportunities for public involvement (albeit at the latter stages of negotiations). But because of Sunshine Laws, public involvement and dissemination of information are required parts of doing business in this realm. Some cities and states have made exemptions for information that can be deemed a trade secret, or proprietary or privileged financial data. This is largely a legal issue. Governments must honor the public's right to know without exposing a company to a business risk by disclosing sensitive information. Laws crafted to eliminate this risk are becoming more common. The Ohio Legislature, for instance, recently enacted rules regarding "privacy of private employer information" for port authorities and economic development agencies. The language allows for a higher degree of privacy concerning sensitive financial and proprietary information submitted in connection with business relocation, expansion or preservation. The law also allows for limited closed meetings when business is being considered that is not of public record.

A common concern is that the activities of the City's various economic development organizations are not well known nor are the results of its incentives programs, including IRBs. In many cities, economic development authorities produce annual reports highlighting their efforts through the course of the year and the job, investment and other benefits that ensued. Given concerns surrounding privacy, these documents, while informative, do not divulge items of a proprietary or sensitive nature. Still, if they were to collaborate on an effort such as this, the Office of Economic Development and AED would make information about its activities and accomplishments more accessible to the general public.

No uniform IRB documentation exists, and Albuquerque's private service providers approach the process differently. The absence of standardization is problematic, particularly for smaller, less sophisticated businesses. Documents that could be standardized by a legal counsel include the indenture, letter of credit agreement, loan agreement and offering document. This lack of uniformity translates to added cost to the borrower. But even if documents, for instance, were boilerplate, costs from service providers may not change appreciably. Some state that Albuquerque's banking community is not an overly competitive one for letters of credit, and that the professional services firms, in general, do not have a great degree of sophistication with the IRB process. Given that only a handful of IRBs are issued per year, this would not be surprising. Short of adding IRB volume, training the professional service community to become more efficient in handling transactions may increase interest and lower transaction costs in the process.

Many firms use outside assistance to work their way through the City's processes but fail to centralize their efforts internally. Running the gauntlet of City requirements mandates involvement and information from a number of company individuals from many disciplines. Companies who designate a "quarterback" to run their process internally seem to more efficiently and expeditiously move through the process externally. The City could mandate that companies designate such individuals.

Because of the multiple layers of pre-approval and approval, the IRB application process can be extremely time-consuming. As it is formally designed, the IRB process from application submission to decision should take less than five months, comparable to the processing time found elsewhere. The most time-consuming aspect of the formal process is the lag time from step to step. For instance, staff review needs to take place three weeks prior to scheduling the Development Commission, the Council Committee meetings can take an additional six weeks to schedule, and so on. Businesses interviewed, however, claim the process typically takes one year from commencement to City decision. The discrepancy is the inordinate time for informal meetings, subtle lobbying and generation of support that precedes the formal process and is imbedded within it. The length of time required to complete the IRB process in Albuquerque is a problem that public and private entities alike agree must be corrected.

In addition to timing, concerns about cost are voiced frequently. But cost is a common complaint throughout the nation. Quite simply, the IRB process is an expensive one. Transaction cost for private bond counsel on taxable projects can easily run $15,000 to $25,000, and $35,000 to $50,000 for tax-exempt bonds. If bond counsel and underwriter's counsel fees are combined, cost can be reduced. The underwriter's fee is often 0.7% to 1.0% of the amount. If credit enhancement is required (letter of credit), an additional $10,000 to $15,000 may need to be added as well as 1% to 1.5% of the principle amount in annual expenses. The cost of the Fiscal Impact Analysis plus application fee for in-house legal and staff review can total $3,000 to $5,000, with an equal amount for the City's Bond Counsel. Although these amounts add up quickly, in total they are in line with transaction costs found elsewhere in the nation.

Greater IRB volume, document standardization and more efficient professional services will reduce IRB costs somewhat, but they will remain high in the eyes of the applicant, particularly small businesses seeking minimal project financing. One of the best ways to reduce cost and minimize hardship for the smaller firms would be to establish expedited procedures and dedicate trained City personnel to aid them in the application process. Presently, the process is the same regardless of company size, internal expertise or financial wherewithal. But even with this level of streamlining and personalized attention, for businesses requiring less than $1 million in financing, IRBs may remain a less than viable option.

Additional customized service, better record-keeping and more vigilant tracking all come with a cost attached. In the event that the City does not have funds available to bolster its dedicated IRB staff, it may wish to consider assessing a fee to support such services. Some cities charge a small up-front fee for transactions (usually under one percent). In that Albuquerque places greater emphasis on its IRB program, it could charge a larger fee, perhaps a basis point, for transactions from companies over a certain size. Funds generated could go either to recapture the cost of dedicated staff time or to offset transaction or professional service costs expended on smaller businesses and others that fit the City's targeted profile.

Regardless of the services that may be added, Albuquerque's IRB process would run more efficiently and perhaps more effectively if three adjustments were made: designating and empowering a lead organization, installing a "Deal Advocate," and realigning the application process. First, the City is in need of a clear, universally recognized and adequately funded and staffed organization to lead and coordinate the IRB process. This includes education, evaluation, processing, negotiations and monitoring. As the table below indicates, in some cities this function resides in the local government's economic development office; in others it resides with the local industrial development authority or at a state agency.

Primary IRB Administrative Body	
Albuquerque, NM	Albuquerque Office of Economic Development
Colorado Springs, CO	Colorado Springs Office of Economic Development
Denver, CO	Mayor's Office of Economic Development and International Trade
Las Vegas, NV	Nevada Office of Business Finance and Planning
Oklahoma City, OK	Oklahoma Bond Advisor's Office
Phoenix, AZ	Phoenix Industrial Development Authority
Portland, OR	Portland Development Commission
Salt Lake City, UT	Utah Department of Community and Economic Development
San Antonio, TX	San Antonio Office of Economic Development
Tucson, AZ	Tucson Industrial Development Authority

In that Albuquerque's Office of Economic Development is mandated to work on IRBs, has a direct link to the Mayor's Office and a working relationship with AED and various community groups, it would seem the obvious choice. But the Office of Economic Development today is under-funded, lacking clear direction and in transition itself. Presently, Albuquerque's IRB process is overseen and facilitated by a collection of organizations with duplicating responsibilities and no clearly coordinated plan of action.

The second adjustment to consider is the designation of a "Deal Advocate" charged with expediting applications, and bridging the gap and mediating the interests of the City, Mayor, Council and company. The Deal Advocate would focus on completing the project consistent with Albuquerque's broader economic development goals, yet to be fully established. Emphasis would be placed on fairness and expediency. This function would be particularly valuable for smaller businesses less equipped to navigate the system without outside assistance. Note that the Deal Advocate should not be the same person monitoring company compliance.

The third adjustment that would improve IRB efficiency and effectiveness is the realignment of the application process itself. This could be achieved, in part, by AED, the Office of Economic Development, the Mayor's Office, and representatives from the Council and Development Commission participating jointly in initial discussions with the applicants, rather than functioning sequentially as they do today. A joint decision as to whether projects meet base level requirements and conform with the City's economic development objectives could be made at this initial stage. Submission of the application could immediately follow, triggering the Fiscal Impact Analysis and other established due diligence. The Development Commission then could review the applications and results of the various analyses in their entirety, followed by Mayoral review, Council Committee, public hearings and ultimate decision. The elimination of multiple pre-approval steps and individual meetings with Councilors would shorten processing time and greatly minimize "sidebar" negotiations.

Compliance Enforcement

In Albuquerque, the notion of IRB compliance enforcement is viewed differently than in other locations. In most other cities, IRBs are strictly a financing mechanism administered by a public or quasi-public body acting as a pass-through agent. The government is not directly providing funding (which requires repayment), only serving as the conduit. Consequently, the municipality does not risk monetary loss, nor is credit at stake. Enforcement is dedicated primarily to ensuring that the funds are distributed properly and used for their intended purpose.

In Albuquerque, the financing component of its IRBs serves the same purpose as in other cities. And similarly, the City is neither at financial nor credit risk because its money is not at stake. Complicating enforcement in Albuquerque is that tax incentives are attached to the IRBs issued and these incentives are viewed by some as a tangible item that should be “repaid” if certain established objectives are not achieved.

For Albuquerque to enforce compliance with IRB requirements, it must 1) be able to place a dollar value on that which has been provided and associated costs to the City, 2) have specific and realistic target objectives with which recipients must comply, 3) employ regular compliance monitoring and measurement tactics, 4) apply enforcement measures commensurate with the level of noncompliance, and 5) have adequate staff dedicated to performing these functions. Today, the City has none of these.

Albuquerque’s general economic development goals include economic diversification and tax revenue generation, in addition to job creation. Yet IRB evaluations are so heavily skewed in favor of jobs that all other goals by comparison seem almost immaterial. The trend nationally is to place increasing importance on capital investment as a means to measure incentive-generated economic development. If Albuquerque is to tie IRB performance to the City’s economic development goals, then considerable emphasis and accompanying IRB criteria must be applied to capital investment, not just jobs.

Under this scenario, companies would be asked to estimate the new jobs and new investment resulting from the IRB-funded project. Success measurement then would be based on the companies’ achievement of both. But an important issue that remains is the contractual nature of the agreed upon criteria. Businesses typically view their job, investment and other projected benefits as estimates given certain assumptions about existing and future economic conditions and other external variables. Cities prefer to view these projections as formal milestones the companies are required to achieve. The solution rests somewhere in between. It is unreasonable for cities to hold their funding recipients responsible for factors beyond their control. It is just as unreasonable for companies to request financial assistance with no connection to performance.

The most talked about form of enforcement are known as “clawback provisions” or “clawbacks”. This approach requires a company receiving assistance to agree to certain success measurement terms and empowers the incentive provider to “claw back” these incentives or a portion of them if the recipient fails to live up to its stated commitment. It is the rare community that has not contemplated the use of clawbacks. But it is also relatively rare to find communities that routinely insert them in incentives negotiations, and far fewer have ever enforced them. The vast majority of communities have no such provision whatsoever. Of the nine cities to which Albuquerque has been compared, seven have no clawbacks for their incentives and no stated interest in applying them. Of the remaining two, both San Antonio and Portland are not averse to applying the provision, though they have not yet done so.

Although nationally it remains rare to establish and exercise clawbacks, it does occur, especially at the state level. The degree of specificity in the clawbacks varies greatly, with most states preferring to remain general enough as to allow for discretion and unanticipated market conditions. Provided below are some of the more aggressive State clawback provisions applied to business attraction and expansion (not retention). Note that these clawbacks are more often applied to job or income-related incentives and none apply directly to IRBs.

Examples of State-Level Clawbacks

State	Incentive with Clawback Provision	Nature of Clawback
Connecticut	Income Tax Credit	Lowering of tax credit if employment levels are reduced by 2% to 6%; elimination of tax credit for the year if more than 6%
Georgia	Job Tax Credit	If increased employment falls below the requirement then no tax credit for the year
Maryland	Job Creation Tax Credit	If number of jobs decreases more than 5% for three years after credit then recomputation of credit up to full clawback
Massachusetts	Single Factor Sales Tax	If employment falls below 90% of current level then company must pay normal tax rate
Nebraska	Employment and Investment Incentive	Total clawback if business fails to meet employment goals; partial recapture if business meets goals but fails to maintain them
New York	Economic Development Zones	Business decertified if it fails to meet agreed upon goals unless failure is due to economic circumstances “beyond its control”
Vermont	Tax Credits for Financing Services	If employment dips below 65% and two years or less have lapsed since incentive then 100% recapture; from two to four years since incentive then 50% recapture; from four to six years then 25% recapture
Virginia	Major Business Facility Job Tax Credit	Partial to total clawback if employment level drops below threshold for five years following tax credit

Source: Corporation for Enterprise Development, 1999.

One of the more noteworthy and recent examples of a state clawback that was actually enforced involves United Airlines and the State of Indiana. After a much-publicized national site search, United Airlines in 1991 selected the Indianapolis International Airport to be its aircraft maintenance hub. In exchange for its commitment to spend $800 million on this facility and hire more than 6,000 people, United Airlines was to receive roughly $295 million in incentives from the State and City. By the Fourth Quarter of 2001, United had spent more than $500 million on a hangar complex and hired roughly 3,000 workers, but had scrapped plans for the much anticipated engine overhaul facility and its thousands of well-paying jobs. Citing factors beyond its control, United agreed to refund $32 million to State and local governmental authorities in late 2002 and could be forced to pay up to five times that for failing to meet its stated goals.

After years of providing IRBs with no clawbacks, Albuquerque recently instituted them in IRBs issued to Philips Semiconductor and United Health Care. In both instances, the companies are required to reimburse forgiven property taxes on a sliding scale if they cease operations or vacate the City. The formula is as follows: 80% recapture if closure or relocation in the first year, 60% if in the second year, 40% if in the third year, and 20% if in the fourth year. This approach is similar to that applied by the City of Rio Rancho.

Albuquerque firms interviewed appear generally receptive to the City's recent approach to clawbacks, much less so to clawbacks where goals must be achieved at certain intervals in order to avoid somehow repaying incentives provided. They believe the latter approach does not allow for changes beyond their control.

Clawbacks can have a detrimental impact on a city's economic development efforts that should not be overlooked. From a business attraction standpoint, communities that enforce clawbacks will be looked upon less favorably than those that do not. This is especially true for cities, such as Albuquerque, where the menu of available incentives is limited and relatively inflexible. Existing firms also may be reticent to enter into agreements for funding and incenting for fear they may be required to repay at times when there are least able to do so. Applying clawbacks could, therefore, inhibit the use of financing and cost reduction tools by the very firms the City is most interested in assisting.

The two comparison cities that apply clawbacks (San Antonio and Portland) prefer a reduced tax incentive moving forward rather than recapture of that already provided. These cities reserve their right to adjust downward the level of tax incentive provided if a company fails to achieve its stated job and investment objectives. This does not apply to their IRB programs. Both San Antonio and Portland believe the threat of reducing the magnitude of their incentives is far gentler than applying negative enforcement in the form of repayment, yet motivation enough for the company. Although these cities have the authority to make adjustments to incentives provided, thus far they have not felt compelled to do so.

Knowing if a company is falling short of its stated objectives hinges on the adequacy of the monitoring function. In the case of San Antonio, job creation and project investment reports are received semi-annually and can be requested more frequently if necessary. Job reports contain information on number of full-time employees, new jobs created and average versus targeted wages since the last report. Investment reports contain information on dollars invested in real and personal property and improvements made since the last reporting cycle. San Antonio also receives documents supporting the job and investment reports, and performs visits to each company's site annually, an effort worth Albuquerque's consideration. In San Antonio, those who monitor company activities are permitted additional on-site visits with a 48-hour advance notice. Beyond the obvious benefits of tracking company progress and allowing for interim adjustments, routine monitoring helps the City to uncover and address operational problems the company may be encountering. San Antonio devotes one full-time equivalent to this function.

Providing incentives is the manifestation of a partnership between business and community. It requires mutual trust, understanding and agreed upon responsibilities. The recapture clawbacks inserted in Albuquerque's more recent IRB issues appear to be just and reasonable. They require repayment under worst case scenarios (closure or relocation) but do not penalize the companies for falling short of expectations at given points in time.

Albuquerque also should examine the merits of either downward or upward adjustments to tax incentives provided under its IRB program. If, for instance, the incentive recipient continues to fall well short of its target objectives for several years (jobs and investment), the City could reduce the tax incentive amount by a reasonable percentage. Incentives then could be restored once targets are approached. Exceptions would need to be made for companies that continue to put forth good faith efforts or where incentive reduction could further inhibit their growth or hasten their decline. Enforcement beyond that described may be overly harsh. Further, if more aggressive enforcement is applied, Albuquerque should prepare itself for perhaps a decline in IRB usage and more costly monitoring and measurement.

IV. ECONOMIC DEVELOPMENT-IRB PROGRAM ALIGNMENT

Economic development as a vehicle for economic growth strives to generate jobs, increase wages, stimulate investment, enlarge the tax base, and create and distribute wealth throughout the community. As a vehicle for economic stability, economic development also strives to prevent the outmigration of businesses (and the ensuing loss of jobs, investment and tax revenue), extend the community's global reach, and support diversification of the industrial and employment base. These are, in essence, the combined objectives of Albuquerque's Mayor and City Council. The principal methods most commonly used to implement economic development, and those frequently cited in Albuquerque, are business attraction, expansion and retention. Among the many tools that support these methods are IRBs and other financial incentives. This section examines the extent to which Albuquerque's IRB program and other incentives, and (to a lesser extent) its methods, align with the City's stated, albeit general, economic development objectives.

Economic Development Planning

Albuquerque is fortunate to have a number of public, private and not-for-profit organizations involved in economic development. The City has a Mayor battle-tested in this arena, a City Council keen on participating in the economic development process, committed and vocal community organizations, and an energized business community. What Albuquerque lacks is an economic development plan of action.

An economic development plan begins with a clearly articulated mission with measurable objectives. From there it lays out action-oriented strategies and tactics assigned to specific organizations. It has formalized mechanisms for identifying opportunities and challenges, mobilizing resources, sharing information, monitoring and measuring outcomes, and communicating initiatives and legitimate accomplishments. An economic development plan encapsulates business attraction, expansion and retention into one seamless package in which efforts are collaborative and inter-dependent. No such plan exists in Albuquerque.

In Albuquerque, organizational connections are common, clearly defined responsibilities less so. Many of the economic development operations in existence in the City today are the offspring of other organizations. The City's Office of Economic Development spun out of Albuquerque's Planning Department. AED is an offshoot of the Greater Albuquerque Chamber of Commerce, as is the Albuquerque Hispano Chamber of Commerce. The newly formed Next Generation Economy Inc., Albuquerque's vehicle for furthering regional industry targeting, evolved in part out of the Office of Economic Development. Although they may support each other's efforts, they lack roadmaps to indicate where one's involvement should commence and another's leave off. It should be noted that attempts have been made to discuss common ground, such as through past "visioning" sessions, or those associated with the Economic Forum or the Business Issues Coordinating Council. But these efforts have fallen short of arriving at an agreed-upon plan of action.

Without a plan and clearly defined responsibilities, initiatives such as the IRB program easily can be set adrift because they become independent resources rather than an integral part of an overall approach. In the case of Albuquerque, they almost take on a life of their own, viewed as the end rather than one of many ways to help achieve the end.

Business development and new investment into a community should directly benefit its residents and existing businesses. In cities around the U.S., connections all too often are not properly forged and benefits that could accrue locally go elsewhere. This appears to be a problem with economic development in Albuquerque. On the demand side, with the exception of fairly discrete initiatives, new investors are left to their own devices to identify and recruit labor, locate support services and materials, and forge supplier and consumer relationships. On the supply side, limited effort is a problem as well. For instance, little is being done to build the capacity of local firms to more effectively uncover and procure contracts from new businesses or emerging industries.

As a consequence, contracts may unnecessarily go outside the City and adequately skilled and trainable local labor being overlooked in favor of recruitment of talent from elsewhere. The City's economic development professionals do encourage incoming firms to utilize local resources and talent, but in many cases the information and connections necessary to make this happen do not exist. Forging the proper linkages and building capacity among local firms should be the first steps in channeling economic development benefits to the community.

In many instances, the issue is far more complicated than simply identifying local resources. On a workforce front, businesses typically prefer to hire locally -- a far less expensive approach than relocating individuals from outside. In Albuquerque, however, a fairly lean talent pool often inhibits this. This is especially problematic for the kinds of advanced industries targeted by the City. Pursuing industries for which there is an inadequate local skill base is an uphill battle. Attracting companies offering low-skill positions (with accompanying low pay) may provide jobs for certain individuals but does little to generate wealth or elevate the overall quality of life.

For Albuquerque, the only solution is a long-term workforce development strategy. This requires bringing together K-12, vocational-technical, university, private training and placement, government and business to jointly elevate the education level and skill base of the local workforce and prepare it for today's and tomorrow's well-paying jobs. In the near-term, the City will need to more closely align its workforce development and economic development initiatives so that the talent and programs available today can be better utilized.

The absence of a formal economic development plan for Albuquerque also may be preventing the City from accessing funds that otherwise would be available to it. Article 10 of the New Mexico Local Economic Development Act states communities that have developed, adopted by local ordinance and submitted to the State formal economic development plans are eligible to use public monies for sanctioned economic development projects including provision of property and infrastructure. Eligible governments also are allowed to enact up to a 1/8th cent gross receipts tax for economic development purposes subject to voter approval. In 1997, Albuquerque adopted an "Economic Development Vitality Plan" and submitted it to the State, but this plan failed to contain some of the specific provisions required in State law. According to representatives of the New Mexico Economic Development Department, Albuquerque still has no such plan approved by the State.

Business Attraction versus Retention and Expansion

Some characterize Albuquerque's IRBs as a tool targeting outside firms entering the City, rather than the existing business base. As has been discussed, this is an invalid assertion in that IRB issues have been fairly evenly split between new and established local firms. But concerns that the combined public and private sector economic development entities apply more energy to business attraction than business retention and expansion do appear to be valid.

AED is Albuquerque's most sophisticated and best staffed economic development organization with nine full-time employees. Its mission is to attract new facility investment to the City (and surrounding area), an often challenging yet clear responsibility. To them, incentives including IRBs are necessary tools for accomplishing this mission. Although AED occasionally assists existing businesses, this is not its charge and its efforts tend to be on behalf of those it previously helped locate in the community. AED vigorously and successfully promotes Albuquerque's IRBs to outside firms for the purpose of business attraction, and these successes are well publicized. Based on AED's past project experience, the use of IRBs has been most effective when competing with communities with more technically advanced infrastructures and economies, and against those with noticeably less costly operating climates. No Albuquerque organization applies IRBs as aggressively for existing businesses as AED does for outside firms, adding to the perception that IRBs are largely a tool for business attraction.

The majority of jobs created, investment made and tax revenue generated are derived from existing, not new, establishments. Further, existing establishments, those with a long history in their present location, tend to have deep roots in the community. Loss resulting from their downsizing or departure can far exceed near-term gains of new entrants to the community and may take years to correct. This would suggest that existing industry (retention and expansion) initiatives should be the backbone of a city's economic development efforts. This is not, however, the case in Albuquerque where focus, staffing and action are heavily skewed toward business attraction and the latter is often an after thought. Listed below are some of the facts that support this statement:

- The singular mission of Albuquerque's dominant economic development organization, AED, is the attraction of facility investment from outside the Region.

- The City's Office of Economic Development preaches business retention and expansion, but with no plan of action and only two full-time professionals (one of whom is dedicated to international trade), passive support is often all that can be mustered.

- Neither of the City's largest chambers of commerce -- Greater Albuquerque Chamber of Commerce or the Hispanic Chamber of Commerce -- spends much time proactively uncovering business needs and working one-on-one to solve them. This could change once the former chamber's new economic development hire becomes more acquainted with his job responsibilities. But even with City financial support, these chambers lack the resources and training needed to undertake a credible existing industry program (a la those found in chambers of commerce elsewhere in the U.S.).

- The private sector, interested in participating in economic development, is rarely called upon to do so. While it increasingly is involved in strategizing and industry targeting, the extent of its direct assistance to business is limited. Business-to-business mentoring, supplier-consumer or contract procurement aid, business needs tracking (through utilities and other service providers), and other activities performed elsewhere are not regularly done so here.

In the absence of a formal plan for business retention and expansion, Albuquerque has no easy way to identify growth opportunities within the business community, few accountable parties for delivering services and expertise to those in need, and no ability to monitor and measure such activities. Economic development by default becomes business attraction-driven, and the tools available are disproportionately and unintentionally channeled down this narrow path. This gap must be addressed.

Clouding this debate is the question of what qualifies as an "inside" versus "outside" firm. For other communities, the "stigma" as an outsider is lifted once a non-local business opens its doors locally and begins operations. A subtle handoff occurs where attraction efforts and those involved give way to existing business assistance. In Albuquerque, certainly in the case of Philips Semiconductor, a business enters a gray area in which they no longer receive marketing-related attention but, in the eyes of some, are not yet recognized as a full member of the existing business community.

Albuquerque's business attraction activities follow the disciplined and linear path of identifying prospective investor need, bundling programs to meet this need, delivering customized and company-specific assistance, and working with the target audience until the process reaches conclusion. Taking this same tact for Albuquerque's existing businesses would be at least as beneficial in that their workforce, transportation, real estate, financing and other issues can be even more inter-related and challenging.

Targeting the Use of IRBs

One of the ongoing debates surrounding Albuquerque's economic development program is the extent to which such efforts (including the use of IRBs) should be driven by specifically targeted industries. The premise behind this thought is that by making industry type a qualifier for program or service eligibility, resources then can be channeled to the most desirable recipients and the subjective nature of these decisions can be substantially minimized.

In December 2001, a representative of the World Bank was invited to present to Albuquerque's business and economic development communities on the state of the global economy from a facility investment perspective. Based on a World Bank survey performed both in the U.S. and overseas, for the foreseeable future, only three out of every 10 new business investments will result in newly constructed or leased facilities. The lion's share, roughly 70%, will come from either expansion of existing facilities or mergers and acquisitions. The World Bank survey also found that, as a result of the ongoing global economic downturn, 37% of those planning new investments are postponing them, 25% are reducing the size of their plans, and 5% are canceling them all together.

The stark figures reported by the World Bank confirm that the field of investment opportunities is small and may be dwindling. This comes at a time when the number of economic development organizations pursuing investment is growing rapidly, both in number and sophistication. With a shrinking number of opportunities and an explosion of organizations pursuing them, tying programs such as IRBs to specific targeted industries means pinning new investment hopes on a very small slice of the marketplace. An examination reveals that several of Albuquerque's comparison locations package some of their incentives with specific industries in mind. But, in order to remain flexible and competitive, their most lucrative incentives are not industry-specific.

Through the collaborative efforts of many of the organizations previously mentioned in this document, and the help of ICF Consulting, a program called the *Next Generation Economy Initiative* emerged. Through this effort, a set of six target industry clusters were selected as those most appropriate to leverage Albuquerque's unique capabilities and take its economy to the next level (i.e. create a "Next Generation economy"). When the topic of aligning programs with targets arises, the targets referenced most often are the "Next Generation" industry clusters identified. They are:

Next Generation Economy Target Clusters[1]

Cluster	Products or Services
Electronics Cluster	• Semiconductors and Related Services • Electronic Components • Printed Circuit Boards
Artisan Manufacturing Cluster	• Jewelry, Silverware and Plated Ware • Handbags and Personal Leather Goods • Custom Furniture
Tourism Cluster	• Hotels and Motels • Specialty Retail • Travel Agencies • Eating and Drinking Places • Scheduled Air Transportation • Taxicabs
Biomedical & Biotechnology Products Cluster	• Ophthalmic Goods • Medical Instruments and Supplies • Pharmaceuticals
Optics & Photonics Cluster	• Measuring and Controlling Devices • Photographic Equipment and Supplies

Next Generation Economy Target Clusters[1]	
Information Technology & Software Cluster	• Computer and Data Processing • Computer and Office Equipment • Telephone Communications

[1] *Next Generation Economy Initiative*, ICF Consulting, 2000.

The *Next Generation* report cites many good reasons for selecting these clusters and justifying their aggressive pursuit. It stops short of suggesting that Albuquerque's programs be channeled to these industries to the exclusion of others. A careful examination of these targets shows that it is probably wise not to wed programs exclusively to these targets. That is certainly true in the case of the City's IRB program.

Albuquerque's incentives programs, especially IRBs, apply best and most often to large, capital-intensive businesses. By the admission of the authors of the *Next Generation* report, several of the targeted clusters, such as Biomedical and Biotechnology Products and Optics and Photonics, are in their infant stages in the Region. They are characterized primarily as a series of innovations, high in risk with few fixed products. Among the most important services to them would be technical/entrepreneurial assistance and risk capital, not facility or equipment financing. Given the nature and size of their operations, many of the businesses in the Artisan Manufacturing and Tourism Cluster also would be unlikely targets for the City's incentives programs (based on the restrictions of the programs themselves). The Electronics Cluster may be the Region's most mature with the greatest applicability for the available incentives programs. But the vast majority of this cluster's employment is in three companies -- Intel, Honeywell Defense Avionics Systems and Philips Semiconductor -- each of whom already has received substantial financial packages.

This is not meant to say that the *Next Generation* targets are not worthy of Albuquerque's programs. Many are. It reinforces the fact that shoehorning programs and actions into narrowly defined targets may be overly confining, especially in a time of dwindling opportunities and heightened competition. This may be one reason that one year after these target clusters were identified, some of those involved in the original selection process remain unconvinced that the City should travel down a target industry path, or at least this exact path.

Much of the discussion surrounding the targeting of incentives (especially IRB) programs has been tied to the need to elevate the City's wage levels. According to *Forbes Magazine* as reported by a City Councilor, although Metro Albuquerque is succeeding in attracting jobs, it is falling behind in its mission to generate higher paying ones. According to that sourced, Metro Albuquerque ranked 162nd in average wages and salaries and 158th in job growth out of 294 metro areas in 1994. A half decade later, the Metro Area rose to 84th in new jobs created but plummeted to 216th for wages and salaries.

The generally accepted belief is that the City should do more to attract high-paying jobs. Disagreement surfaces as to whether higher paying jobs should be a prerequisite for the use of Albuquerque's economic development programs, particularly IRBs. But the concept of deciding program use based on wage is not compatible with the goal of doing more for the City's existing businesses.

Albuquerque's businesses do not enjoy the unsolicited government assistance that their outside counterparts do. They have few recognizable channels to seek assistance and in many cases will be ineligible for one of the State's most valuable programs -- the In-Plant Training program (which cannot be used for worker re-training/skill enhancement). Many, if not most, of these businesses (largely small establishments) average wages considerably lower than the $10 per hour some consider "living wage." Making wage minimums a rigid requirement for IRBs and other programs would ensure that the pay scales of new businesses receiving such assistance are "acceptable." But it also would preclude many of Albuquerque's local and worthy firms from accessing yet another valued form of assistance. Addressing this through different standards for existing versus new businesses would fly in the face of the equality the City is trying to create.

Prager Company

Prager Company was formed in 1998 and is headquartered in the Chicago area. At its helm is Adam Prager with over 15 years of experience as an economic development practitioner, corporate location advisor, and counselor to more than 100 economic development-minded organizations in North America, Western Europe and Asia. Since its inception, Prager Company has helped numerous organizations crystallize and advance their economic development agendas. Unlike traditional economic development consultants, Prager Company often goes well beyond the delivery of opinion and strategy by working alongside its clients to enact change.

NatCity Investments, Inc.

NatCity Investments, Inc. is a full-service investment banking/brokerage arm and wholly-owned subsidiary of National City Corporation, an $89 billion financial services company headquartered in Cleveland. NatCity specializes in helping private businesses, public corporations, non-profit organizations and public bodies access public programs and capital for expansion, relocation and development. The evaluation of, and assistance regarding, economic development financing is provided by NatCity's Economic Development Group. NatCity has extensive experience coordinating public incentive programs and private financing resources. Its efforts marry assisting corporations with their efforts to build and grow with the promotion of vitality and prosperity where investment occurs.

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