



Corporate Site Selection Trends:

New Mexico's Competitiveness for Business

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# Site Selection Trends

## 1. Gradually rebounding from severe recession

- Pace of new facility investment (industrial and office) started to pick-up late 2010
- Been steadily rising since then
- Solid activity level in 2013
- More of same likely this year - 2014

## 2. Plenty of activity in the U.S.

- Across industry sectors
- Embodying all regions

## 3. Today, among most locationally active industries include

- Metalworking
- Motor vehicles
- Aerospace
- Optics
- Instruments
- Bioscience
- Plastics
- Packaging
- Consumer durable goods
- Health/beauty products
- Machinery
- Food processing
- Digital media

- Back offices
  - ◆ Customer service
  - ◆ Telesales
  - ◆ Help desks
  - ◆ Shared-services
  - ◆ Claims processing
- IT centers (both development & applications)
- Data centers
- Retail Distribution
  - ◆ Perishable goods
  - ◆ Sporting goods
  - ◆ Online fulfillment
- R&D
  - ◆ Tend to be smaller
  - ◆ Global including U.S.
  - ◆ Across industry sectors

**4. Manufacturing upswing comprises a rebirth in the U.S.**

- Innovation
- Technology
  - ◆ Efficiency
  - ◆ Labor content
- Global cost competitiveness
  - ◆ Rising costs, China & elsewhere
  - ◆ Stable costs, U.S.
  - ◆ Differentials narrowed
- Supply chain
  - ◆ Length
  - ◆ Risk
  - ◆ Cost
- Large, affluent market
  - ◆ Consumer
  - ◆ Industrial

- Domestic expansion, e.g.,
  - ◆ Shell (petrochemicals) in Western PA
  - ◆ Carpenter Technologies (alloys in Northern AL)
  - ◆ Chromalox (energy efficient devices in Central TN)
- Domestic expansion that might have gone offshore, e.g.,
  - ◆ IKEA (home furnishing in VA)
  - ◆ GE (appliances in IN)
  - ◆ Whirlpool (appliance in TN)
  - ◆ GA Chopsticks (disposable chopsticks in GA)
  - ◆ Toto (toilets in GA)
- Reverse Investment including from BRIC nations, e.g.,
  - ◆ Rolls Royce (aerospace in VA)
  - ◆ Siemens (gas turbines in NC)
  - ◆ Continental (tires in SC)
  - ◆ Sanofi-Aventis (Biotech in MA)
  - ◆ Kia (autos in GA)
  - ◆ Golden Dragon (from China, copper tubing in AL)
  - ◆ Welspun (from India, piping in AR)
  - ◆ Embraer (from Brazil, business jets in FL)
  - ◆ Evraz (from Russia, steel in OR)
  - ◆ Infosys (Dallas)
  - ◆ Tata (Cincinnati)
  - ◆ Wipro (Atlanta)
- Reshoring (mostly from China), e.g.,
  - ◆ Wham-O (Frisbees to Santa Barbara County, CA)
  - ◆ GE (Water Heaters to Louisville)
  - ◆ Ende Machinery (Castings to Lewiston, ID)
  - ◆ Stanley Furniture (Cribs to Robbinsville, NC)
  - ◆ Element Electronics (High Def TV assembly to Canton, MI- suburban Detroit)
  - ◆ Whirlpool (Hand Mixers to Greenville, OH)
  - ◆ Farouk (Hair Products to Houston)
  - ◆ Horton Archery to Kent, OH

- ◆ NCR (ATMs to Columbus, GA)
- ◆ Coleman (Coolers to Wichita, KS)

#### 5. Most companies will adopt allshore strategy

- Will include more regional production
- Will be more onshore & reshore
- Also upswing in nearshore
  - ◆ Markets
  - ◆ Costs
  - ◆ Supply chain
- Offshore
  - ◆ Will of course continue
  - ◆ But vs. historical
    - ◇ More market driven
    - ◇ Less cost driven
  - ◆ Mexico move viable alternative to China
- Localized Globalization
  - ◆ New paradigm
  - ◆ Becoming more widely adopted
  - ◆ Benefits most U.S. states

#### 6. Some customer service reshoring (to both Europe & U.S. from India)

- Service quality
- Customer complaints
- Examples
  - ◆ Carbonite (Lewiston, ME)
  - ◆ Expedia to an Indian outsourcer (SE Ohio)
  - ◆ Home Depot (Atlanta, GA)
  - ◆ Dell (Nashville, TN)
  - ◆ United Airlines (Chicago & Honolulu)
  - ◆ Also centers being est'd that might have been offshore 10 years ago (e.g., HP in Conway, AR)
  - ◆ Companies will balance globally (incl. U.S.) such as ADP in El Paso and Philippines

## 7. Among most influential site selection factors (in descending order)

<i>Manufacturing</i>	<i>Distribution</i>	<i>Back Office</i>
Market proximity	Market proximity	Labor availability
Supplier proximity (sometimes near a seaport)	Delivery times	Some experienced
Transportation costs	Freight costs	More qualified entry-level
Transportation services	Transportation resources	Labor cost
Four-lane highway access	Four-lane highway access	Turnover/absenteeism
Available modern building	Big box building available	Sustainable labor market
Fully serviced sites	Large scale sites	advantage (supply/cost)
Fast-track construction	Fast-track construction	Available, modern building
Utility infrastructure	Labor pool depth	Dual teleco
Electric power (capacity, reliability, cost)	Nonunion	Dual power
Dual-power feed	Workforce stability	Air access
Labor pool depth	Electric power	Training/education
Experienced	Occupancy costs	Incentives
Qualified entry-level	Taxes (especially inventory)	Taxes
Nonunion	Incentives	Leadership attitude
Labor costs		
Workforce stability (e.g., turnover)		
Occupancy costs		
Incentives		
Taxation		
Environmental		
Training/education		

## 8. R&D/High-Tech Manufacturing (heavy engineering content)

- Industry ecosystem (at least modest critical mass)
  - ◆ Talent pool (e.g., scientists, engineers, IT)
  - ◆ Similar companies
  - ◆ Technical universities
  - ◆ Community colleges with tech programs
  - ◆ Supplier network
- Available lab and in some cases clean room space (desirable)
- Air access
  - ◆ HQ
  - ◆ Plants
- Quality-of-life / transferee appeal
- Incentives
- Taxes

## 9. Incentives here to stay

- Important once qualified candidates targeted (shortlist)
- Can be a deal maker / deal breaker
- Companies prefer upfront cash
- Public entities prefer tax credits (many companies cannot fully utilize)
- Seems to be a disconnect
- Win-Win incentives
  - ◆ Cash (direct or refund)
  - ◆ Performance based
    - ◇ Jobs
    - ◇ Wages
    - ◇ Capital investment
    - ◇ Earn as targets met
- Other more cherished incentives
  - ◆ Deal closing fund
    - ◇ State
    - ◇ Local
  - ◆ Machinery & Equipment Tax Exemption
    - ◇ Sales
    - ◇ Property
  - ◆ Property tax abatement (school can be omitted)
    - ◇ Real
    - ◇ Personal
  - ◆ Site infrastructure assistance
  - ◆ Taxable bond financing
  - ◆ Tax increment financing
  - ◆ Electric power ED incentive rate
  - ◆ Pre-employment training (payment to company)
- More states (and communities) need retention incentives, given vicissitudes of global economy

# Locational Assets

## 1. Strategic Southwest location

- 1 to 1.5 days to major markets in So. California, AZ, CO, TX
- Mexico access
- Fast growing regional market

## 2. Transportation infrastructure to reach regional/national markets

- Most employment centers connected by four-lane highways
- 3 Interstates
- Two Class I RRs
- Several Shortline RRs
- Good air service from Albuquerque
- A number of other commercial airports

## 3. Array of communities to accommodate variety of industries, from high-tech to traditional manufacturing to back-offices

## 4. Favorable demographic trends, auguring well for future labor supply

- Decent critical mass at 2.1 million
- Above average growth rates
  - ◆ Total population (2013-'18), 4.1% vs. 3.3% U.S.
  - ◆ Prime working age (21-34), 3.1% vs 1.2% U.S.
- Significant bilingual population

## 5. Labor market resources to support diverse range of industries, e.g.,

- Labor force                    923,000
- Unemployment rate        6.4%
- Skilled labor                22,000
- Semi-skilled                45,000
- Engineers                    23,000
- Life Scientists              10,000
- IT Professionals            19,000

- Large underemployed pool (est.)
  - ◆ Industrial 99,000
  - ◆ Office 189,000
  - ◆ Total 288,000 (29% of workforce)
- Talent pool augmented by annual college grads
  - ◆ Two-year 5,200
  - ◆ Four-year 11,100
  - ◆ Total 16,300
- Military also valuable supplemental labor resource, i.e.,
  - ◆ Cannon AFB
  - ◆ Holloman AFB
  - ◆ Kirtland AFB
  - ◆ White Sands Missile Range (Army)

**6. Top quality workforce as suggested by educational attainment**

- 58% with 12-15 years
- 25% with 16 or more years

**7. Outstanding higher education composed of business friendly two & four-year schools, such as**

- UNM
- NMSU
- NM Institute of Mining & Technology
- Eastern NM University
- Western NM University
- University of Southwest
- NM Highlands
- Santa Fe University of Art/Design
- Northern NM College
- Central NM College
- Clovis Community College
- Dona Ana Community College
- Mesaland Community College

8. **Importantly for high-tech, business schools of engineering, medicine, and pharmacy**
9. **Superior telecommunications**
10. **Reliable, low-cost electric power**
11. **Plenty of natural gas**
12. **Ample water availability in some areas including Albuquerque**
13. **Low natural disaster risk**
14. **Moderate taxation**
  - Corporate income tax rate coming down
  - Sales option for Mfg. apportionment
  - Throwback has been thrown out
  - Sales tax exemptions for Mfg. equipment & electricity
  - Previous reduction of personal income tax
  - Among lowest 15 in Per Capita tax burden
15. **Payroll and occupancy costs at least 10% below U.S. average**
16. **Unusual presence of high-tech labs (and supporting businesses), such as:**
  - Sandia Labs (Albuquerque)
  - USAF Research Lab (Albuquerque)
  - White Sands (Alamogordo)
  - Santa Fe Institute (Santa Fe)
  - NASA Johnson Space Center/White Sands (Las Cruces)
  - SpacePlex (Las Cruces)
  - Los Alamos (Los Alamos)
  - Nat'l. Center for Genome Resources (Santa Fe)
  - University research centers (e.g., Las Cruces, Albuquerque, Socorro)
17. **Attractive quality-of-life / national recruiting appeal**
18. **Below average cost-of-living (3-6% less than U.S. norm)**
19. **Affordable housing, strengthening people relocation**

20. Attractive landscape / outdoor recreation (alluring for recruiting all talent including young professionals)
21. Clean air, both business recruitment and people relocation advantage
22. Pro-business climate
23. Low rate of unionization
24. Lottery Scholarship Program, for 2 & 4-year schools helps bolster supply of qualified talent
25. Competitive incentives for new/expanding businesses, including enhanced programs for small towns/rural areas
  - ◆ High Wage Jobs Tax Credit
  - ◆ Pre-employment training
  - ◆ Mfg. Investment Tax Credit
  - ◆ Rural Jobs Tax Credit
  - ◆ Aerospace, Energy, Technology Tax Credits
  - ◆ Small business R&D tax credit
  - ◆ Angel Investment Tax Credit
  - ◆ Film Tax Credit

# Locational Liabilities

1. **Largest metro accounts for 40% of state population**
2. **Beyond Albuquerque majority of locational options smaller/rural communities**
3. **Paucity of modern, available buildings**
4. **Above average proportion of adults without a high school education**
  - NM 16.8%
  - U.S. 14.6%
5. **Shortage of skilled labor in most parts of the state**
6. **Many communities beyond Albuquerque, Santa Fe, and Las Cruces viewed as remote (prospects might question labor, logistics, quality-of-life resources)**
7. **Air service to East Coast limited**
8. **No nonstop air service to Mexico**
9. **ACT scores below U.S. average which diminishes quality-of-life perceptions and adds conjecture over workforce readiness**
10. **Absence of Right-to-Work a notable disadvantage for industrial operations (surrounding states are RTW except CO but modified RTW there)**
11. **Major incentive program (High Wage Job Tax Credit) will have too high of a salary threshold in 2015 and will probably result in lost opportunities**
  - Urban Areas = \$40,000 to \$60,000
  - Rural Areas = \$28,000 to \$40,000
12. **State's deal closing fund needs bolstering**
13. **NM not on radar screen for most high-tech site searches, in part due to negligible marketing budget**
14. **Selective tax practices uncompetitive**
  - Non-production machinery & equipment including data centers subject to sales tax
  - All business equipment subject to property tax
  - Only manufacturing will be eligible for single apportionment (sales tax)
15. **Most sites do not have dual-utility service (power and/or teleco)**

**16. NM economy has been overly dependent on government with under-representation (% total employment) in sectors like:**

	NM	U.S.
◆ Government	23.8%	16.2%
◆ Mfg.	5.2%	10.5%
◆ Logistics	6.5%	7.9%
◆ Financial Svcs.	4.6%	6.7%

**17. In part due to static government employment, NM overall job growth significantly trailing U.S. and nearby states, post-recession**

State	09/12 Job Growth Rate (except government)
◆ NM	0.6%
◆ AZ	2.0%
◆ CO	3.3%
◆ OK	3.4%
◆ UT	5.3%
◆ TX	7.1%
◆ U.S.	3.2%

**18. In some parts of state water availability**

# Competitive Improvement

**1. All-out effort aimed at basic skills preparedness**

- HS grads
- Adults
- Including mobile/onsite delivery

**2. Exceed U.S. in ACT score within 5 years**

**3. Launch massive PR effort to elevate socio/economic status of tech careers (e.g., Dream it/Do it by N.A.M.)**

**4. Double lottery scholarships for industrial trades**

**5. Launch shell building programs, office & industrial, in smaller communities**

**6. Provide financial mechanism for allowing dual-power or teleco feed to selected sites in small towns/rural areas**

**7. Increase state deal closing fund to \$25 million**

- Almost half of states have such a fund and others actively considering
- \$25 million in bottom quartile
- Some examples
  - ◆ NM \$3 million
  - ◆ NV \$10 million
  - ◆ OK \$12 million
  - ◆ AZ \$25 million
  - ◆ OH \$79 million
  - ◆ FL \$100 million
  - ◆ GA \$112 million
  - ◆ TX \$140 million

**8. Establish local deal closing funds, possibly by enacting 1/4¢ or 1/8¢ sales tax for economic development**

- TX an excellent model (numerous communities such as Frisco)
- But others around the country such as:
  - ◆ Wichita, KS
  - ◆ Blount County, TN
  - ◆ Baton Rouge, LA
  - ◆ Covington, LA
  - ◆ Reno, NV
  - ◆ Grand Island, NE
  - ◆ Albany, GA
  - ◆ Enid, OK
  - ◆ Pueblo, CO
  - ◆ Muncie, IN
  - ◆ Joplin, MO
  - ◆ Portsmouth, VA
  - ◆ Akron, OH

**9. Enact changes to gross receipts tax practice**

- Exempt Mfg. from state & local (currently investment tax credit for state only)
- Exempt data center equipment from sales tax
- Eventuality eliminate all business personal property from sales tax

**10. Consider following for incentives, beyond deal closing**

- Repeal wage threshold increase (to \$40K rural \$60K urban) scheduled for July 2015
- Increase angel investor tax credit to \$250,000
- Provide a five year holiday for (a) target industry companies or (b) any company with plans to sell beyond NM that is admitted to a physical or virtual incubator (in effect widens/embellishes small business R&D tax credit)

**11. Establish an economic development rider (such as a 5-year sliding scale reduction) for electric power**

- Many states have such a program (such as Carolinas, El Paso, FL, MS, AL, LA, IN)
- Would markedly increase appeal for mfg. and data centers

12. **Keep trying to establish nonstop air service to Boston and New York (not red eye)**
13. **Push for nonstop air service to MX which would enhance trade-related job growth**
14. **Establish Right-to-Work law which will substantially increase flow of industrial prospects**
15. **Beef up/fund/rationalize plan to ensure sufficient water for all employment centers**
16. **Increase NM Partnership marketing budget to \$2 million per annum  
(and Albuquerque ED to \$750,000)**
17. **Create regional marketing partnerships elsewhere in state for business attraction (all with at least \$250,000 annual marketing budget)**
18. **Fine-tune state target industries**
  - Drop advanced manufacturing and focus on specific industries (e.g., plastics, scientific apparatus, navigation equipment, food processing, metal fabrication, etc.)
  - Add data centers
  - Indicate most appropriate back-office targets, such as
    - ◆ Claims
    - ◆ Medical records
    - ◆ Shared-services
    - ◆ Help desk
    - ◆ Customer service
  - Add information technology
19. **Initiate a shell building program in smaller communities**
20. **Continue superior prospect service both at the state and local economic development levels**
21. **Congratulations on recent legislative accomplishments (e.g., corporate income tax) and engage in more of same**

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Dennis J. Donovan is responsible for worldwide site selection services at Wadley Donovan Gutshaw Consulting (WDGC). He is one of the firm's partners. WDGC has been advising corporations on office and industrial facilities location for 37 years. Its client base captures about 1/3 of the Fortune 500. Additionally, WDGC has consulted with a wide array of middle market companies.

Client assignments have spanned an array of industries (e.g., manufacturing, distribution, business services) and functions (e.g., headquarters, back offices, R&D centers, warehouses and production facilities). Among companies that Dennis has advised on site selection are Amerigroup, Amylin, Apria Health, Bank of America, Barclays, BOC/Linde, Covance, Chubb, Gardner Denver, Genentech/Roche, Harbor Freight Tools, Marriott, Pitney Bowes, and Target. Middle market clientele have included Metalized Carbon (carbon graphite), Plibrico (refractory materials), Grafco (plastics), Indo-Mim (precision metals), and PFERD (brushings).

Dennis has assumed a leadership position in the industry's primary trade association -- CoreNet Global. He created and teaches the organization's site selection course both for certification and professional development. Additionally, Dennis was a member of CoreNet Global's 2020 Strategy of Place Task Force, which assessed future trends in the design and execution of global location strategy. Dennis is a frequent CoreNet workshop presenter and earned one of the organization's luminary awards for the "Around the World in 90 Minutes" sessions.

He is also a prominent speaker and author on the subject of corporate site selection. Recent articles written by Dennis have addressed manufacturing location trends, the latest in customer service site selection, aerospace location strategy, and headquarters relocation.

A geographer by trade, Dennis earned a bachelor's degree from the University of Nebraska at Omaha. He was awarded a master's degree in economic geography from the University of Rhode Island.