LFC: Some companies given LEDA funds failed to create jobs

By Daniel J. Chacón dchacon@sfnewmexican.com | Nov 14,2022

David Abbey, right, director of the Legislative Finance Committee, speaks with Sen. George K. Munoz, D-Gallup, during the Legislative Finance Committee meeting on Monday, November 14, 2022, at the state capitol. Javier Gallegos/The New Mexican

One-third of companies that received taxpayer money in six recent fiscal years under one of New Mexico's signature economic development incentive programs failed to meet their job creation obligations, and the state allowed some of them to walk away despite their unfulfilled promises.

Analysts with the Legislative Finance Committee reviewed 101 Local Economic Development Act agreements signed between fiscal years 2016 and 2021.

At least 33 failed to meet their job creation requirements, which was part of the agreement to receive public money, according to a report presented to lawmakers Monday.

"In about a third of the cases, at least some of the money was clawed back by the [Economic Development Department], but in about half of them, EDD either waived the clawback after determining the company had made enough of an economic impact that they could justify keeping the money or the department wasn't pursuing the clawback at all," Micaela Fischer, LFC program evaluation manager, told lawmakers.

"We estimated between those two categories, the department had forgone pulling back about $4.1 million in state funding over that six-year period," she said.

The unfulfilled job promises meant 2,507 expected jobs never materialized, and the state's per-job cost under the economic development incentive program grew from about $12,000 to closer to $19,000.

The report, which also included a review of the state's Job Incentive Training Program, or JTIP, generated mixed reactions from lawmakers.

Sen. George Muñoz, D-Gallup, said the state is required to seek reimbursement from companies that fail to meet their obligations.

"The statute says that you have to claw back," he said. "It's very clear about that."

Sen. Nancy Rodriguez, D-Santa Fe, was more forgiving.

"On one hand, we ask the staff and the department to think out of the box," she said. "We need to do whatever we can to build up economic development, to do things differently. If that means that we take a little risk in some businesses and in some economic development ventures, so we do. It's not the first time."

In many cases, Rodriguez said, the state sees success in its investment. But there will be instances where a deal doesn't work out, she said.

"Nothing is perfect and so once in a while we see a few things fall through the cracks or work out differently," she said, adding the department has been "exemplary" in all its work.

Sen. Gay Kernan, R-Hobbs, said clawbacks need to be “clarified” by lawmakers.

“I’m not sure who should make the decision on whether you claw back or whether you don’t, but it’s something that needs to be addressed, I think, legislatively,” she said.

Economic Development Department Secretary Alicia J. Keyes said the state has been aggressive in pursuing clawbacks from companies that have left New Mexico and are no longer contributing to the economy.

“These legal efforts are costly and time-consuming,” she said. “But we want to be a partner to businesses that remain committed to New Mexico. Many of them are family-owned operations and still part of the community. We believe that pursuing financial clawbacks for businesses who are contributing and employing New Mexicans and striving to meet their economic development benchmarks is not in the interest of the taxpayers.”

Keyes said the department under the administration of Gov. Michelle Lujan Grisham awards funds when companies hit their job targets, which would make a clawback unnecessary unless the state has already moved the money. LEDA primarily passes state funding through local governments to businesses for land, building and lease costs.

“Previous administrations would go ahead and front load that money and give money to companies before they had fulfilled their job requirement, so we changed that right when we came in,” she said. “There are some deals that are referred [to in the report] that were the previous administration that obviously have to be clawbacks, but we’ve changed that.”

While the agreements, which are usually for five to 10 years, may have been signed under a previous administration, LFC staff said the department remains responsible for trying to recoup funds on deals that didn’t meet their obligations.

Keyes touted the successes the state has had with LEDA and JTIP, which reimburses new or expanding companies for a share of the wages paid to certain newly hired employees.

“Without these programs, there would be no Netflix in New Mexico, no Facebook, no Intel expansion,” she said. “And there would certainly not have been a decision by Manna Capital Partners and their partner, Ball [Corp.], to construct an aluminum sheet-rolling mill and recycling center in Valencia County. The $2 billion project will create 950 jobs with an economic impact of over $4 billion and is the largest to come to New Mexico since Intel in 1980.”

Keyes said the department’s own analysis shows every dollar in taxpayer money invested in LEDA nets a 315 percent return to the state and more than 800 percent when the returns to the state, city and county governments are combined.

“These returns are the reason so many states have deal-closing funds similar to New Mexico,” she said.