



## **The Potential Economic Impact of the National Broadband Plan on the New Mexico Exchange Carriers Group**

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## Table of Contents

| <b>Title</b>                                | <b>Page</b> |
|---|-------------|
| Table of Contents                           | i           |
| List of Tables                              | ii          |
| List of Maps                                | ii          |
| Executive Summary                           | iii         |
| Introduction                                | 1           |
| New Mexico Exchange Carriers Group          | 1           |
| New Mexico Demographic and Economic Profile | 4           |
| The Methods of Economic Impact Analysis     | 12          |
| Economic Impacts                            | 14          |
| Tax Impacts                                 | 16          |
| Summary                                     | 18          |
| References                                  | 19          |
| Glossary                                    | 20          |
| About Arrowhead Center                      | 22          |

## List of Tables

| <b>Table</b> | <b>Title</b>   | <b>Page</b> |
|--------------|--|-------------|
| Table 1.1    | New Mexico Exchange Carriers Group Members 2010  | 1           |
| Table 1.2    | New Mexico Exchange carriers Group Summary Data  | 2           |
| Table 1.3    | Basic Demographic Data for New Mexico and its Counties                                 | 8           |
| Table 1.4    | Labor Market Data for New Mexico Counties, New Mexico and the United States: 2010      | 9           |
| Table 1.5    | Median Household Income for New Mexico and its Counties 2000 and 2005-2009             | 10          |
| Table 1.6    | Poverty Status in New Mexico Counties, New Mexico and the United States: 2000 and 2009 | 11          |
| Table 1.7    | Economic Impacts of Eliminating Universal Service Funds in New Mexico                  | 15          |
| Table 1.8    | New Mexico Effective Tax Rates   | 16          |
| Table 1.9    | Change in New Mexico Tax Revenue Associated with Universal Service Fund Elimination    | 17          |

## List of Maps

| <b>Map</b> | <b>Map Title</b>                                       | <b>Page</b> |
|------------|--|-------------|
| Map 1      | New Mexico Exchange Carriers Group Service Areas       | 3           |
| Map 2      | Population Change in New Mexico Counties: 2000 to 2010 | 5           |
| Map 3      | Population Change in New Mexico Counties: 1930 to 2010 | 6           |
| Map 4      | Population Density in New Mexico Counties: 2010        | 7           |

## Executive Summary

This report contains an assessment of the economic impact of proposed Federal Communications Commission (FCC) rule changes on the New Mexico economy (FCC February 9, 2011). The proposed FCC rule changes are associated with a 2009 congressional mandate to establish a National Broadband Plan to ensure that all Americans have access to broadband. The rule changes would essentially eliminate the Universal Service Fund (USF) mechanism for providing revenue to rural exchange carriers – a long-standing major source of revenue for rural carriers. The report has been prepared by Arrowhead Center under contract with the New Mexico Exchange Carriers Group.

The economic impacts of the proposed rule changes would be felt mainly in the rural areas of New Mexico. New Mexico's non-metropolitan counties generally exhibit a slow-growing or declining population, low population density, relatively low income levels, and high poverty rates.

The economic impacts of the elimination of Universal Service Funds to 11 of the 13 members of the New Mexico Exchange Carriers Group have been estimated in this report. The approach taken was to reduce USF revenue in the telecommunications sector of a long range, dynamic economic model (REMI PI+). The \$34.5 million reduction in USF funds was assumed to begin in 2012 and continue through 2021. The REMI model is designed to capture relationships among industries and households in a comprehensive fashion. The estimated impacts are reported as differences from a baseline projection in the REMI model.

The estimated impacts are substantial. The estimated impacts in 2012 include the loss of 99 jobs in the telecommunications industry, 261 private sector jobs, and a total employment loss of 335 jobs. Additional impacts in 2012 include reduced New Mexico personal income of \$14.1 million and a decrease in New Mexico tax revenue of \$978,000.

In the ten year projection period (2012 to 2021), the telecommunications industry is estimated to lose a total of 805 jobs or about 80 jobs per year. During this period, private non-farm employment is estimated to decrease by 2,400 jobs while total employment is projected to decrease by 3,146 jobs. New Mexico personal income is projected to decrease by \$200.3 million during the ten year projection period and State tax revenue would decline by 13.6 million.

# The Potential Economic Impact of the National Broadband Plan on the New Mexico Exchange Carriers Group

## Introduction

In 2009, Congress mandated that the Federal Communications Commission (FCC) develop a National Broadband plan “to ensure that every American has access to broadband capability.” (FCC National Broadband Plan, Executive Summary, <http://www.broadband.gov/plan/executive-summary/> ). The FCC estimates that 100 million Americans are without broadband access (FCC National Broadband Plan). In response, the FCC released Notices of Proposed Rulemaking (NPRM) for the implementation of the National Broadband Plan for the United States (February 9, 2011 and March 2010). The FCC proposal includes the reallocation of Federal Universal Service Funds (USF) from rural exchange carriers to fund the national broadband plan. The FCC proposals will affect rural exchange carriers throughout the nation. This report contains an assessment of the economic impact of the proposed changes on the New Mexico economy.

## New Mexico Exchange Carriers Group:

The New Mexico Exchange Carrier Group (NMECG) contracted with Arrowhead Center, Inc., to estimate the impact of this transfer of funds on the State of New Mexico. The NMECG consists of thirteen rural exchange carriers (Table 1.1). Economic impact estimates are presented later in this report based on data from eleven of the thirteen members of NMCEG. Century Link and Windstream Telecommunications are excluded from the analysis.

**Table 1.1**

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**New Mexico Exchange Carriers Group (NMCEG) Members**

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Baca Valley Telephone Company  
Century Link  
Dell Telephone Cooperative  
ENMR-Plateau Telecommunications  
La Jicarita Rural Telecommunications  
Leaco Rural Telecommunications  
Penasco Valley Telephone Co-operative  
Yucca Telecom  
Tularosa Basin Telephone Company  
Valley Telephone Co-operative, Inc.  
Western New Mexico Telephone Company  
Windstream Telecommunications  
Sacred Wind Communications

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Source: New Mexico Exchange Carriers Group <http://nmecg.com/>  
July 28, 2011.

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Rural exchange carriers (REC) provide telephone service to rural areas within the state (Map 1). RECs provide service to households and businesses in parts of every county in the state. Areas not covered by RECs are primarily the metropolitan areas in the state and the Rio Grande Corridor. The eleven RECs included in this study provide 31,542 access lines and serve 80,281 square miles (Table 1.2).

**Table 1.2**

**New Mexico Exchange Carrier Group Summary Data**

**For Cooperatives and Small Commercial Companies Year End 2010\***

|                                |              |
|--------------------------------|--------------|
| New Mexico Jobs                | 518          |
| New Mexico Annual Payroll      | \$23,549,214 |
| Access Lines                   | 31,542       |
| Broadband Capable Lines        | 90%          |
| Miles of Fiber                 | 5,000        |
| Square Miles Served            | 80,281       |
| Access Lines per Square Mile   | 1.8          |
| Total State & Local Taxes Paid | \$4,763,977  |

\* For 11 cooperatives and small commercial companies.

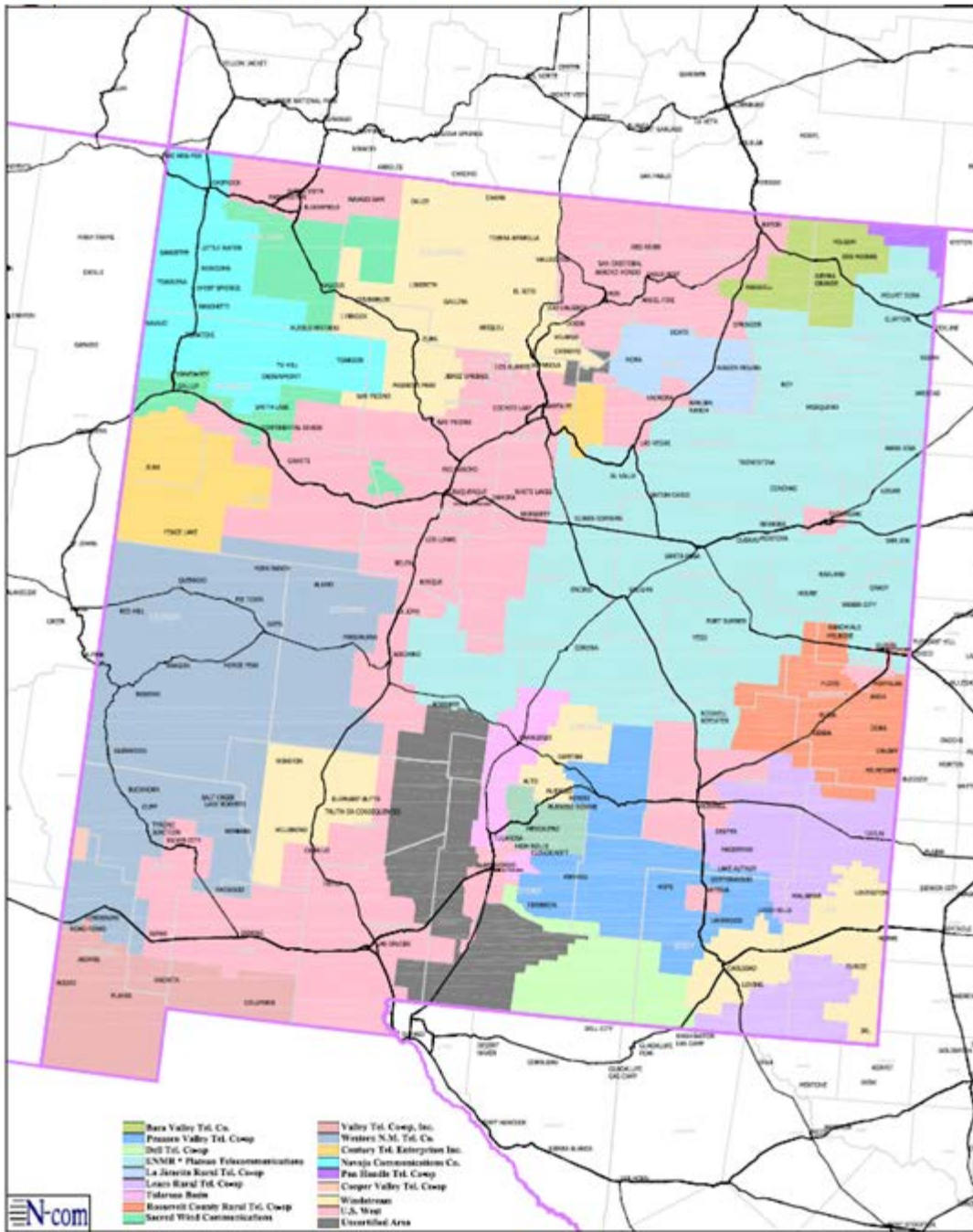
Excludes Centurylink and Windstream.

Source: New Mexico Exchange Carriers Group Presentation to the Science Technology & Telecommunications Interim Legislative Committee, Santa Fe, NM July 21, 2011

<http://www.nmlegis.gov/lcs/handouts/>

Map 1

New Mexico Carriers Exchange Group Service Areas



Source: New Mexico Exchange Carriers Group <http://nmecg.com/page3/page3.html>

## **New Mexico Demographic and Economic Profile**

In 2010, New Mexico's population reached two million for the first time. For the state as a whole, population increased by 13.7 percent from the 2000 census. Population growth between 2000 and 2010 was highly concentrated in the state's Metropolitan Statistical Areas (MSAs) with 82.3 percent of the state's population increase occurring in the state's four MSA's (Table 1.3). Fourteen of New Mexico's thirty-three counties lost population during the last decade (Map 2) and none of these counties were MSA counties. Significant rural to urban migration has been a pattern in New Mexico (and nationally) since the early part of the 20<sup>th</sup> century. Eight New Mexico counties had a smaller population in 2010 than they did in 1930 (Map 3).

New Mexico's population density (2010) of 16.9 persons per square mile is substantially lower than that of the U.S (87.4 persons per square mile). There is a great deal of county to county variation in population density in New Mexico (Map 4 and Table 1.3). Among New Mexico counties, 2010 population density ranged from 0.5 persons per square mile in Catron County to 567 persons per square mile in Bernalillo County. The MSAs combined had a population density of 147.4 persons per square mile while the non-MSA counties population density was 9.1 persons per square mile.

Table 1.4 provides 2010 data on the labor force of the United States, New Mexico, and New Mexico's 33 counties. In 2010, New Mexico's unemployment rate (8.4 percent) was below the national average (9.6 percent), but the unemployment rates in New Mexico's counties vary widely. The highest unemployment rates in the state (above 10%) are all in rural counties.

New Mexico is also a relatively poor state with a median household income of 83.1 percent of the national figure in recent years (Table 1.5).

The income data in Table 1.5 are from the 2000 Census and from the Census Bureau's American Community Survey. The 2000 Census data reflect income in calendar year 1999. Since the 2000 Census, the American Community Survey was initiated to provide more frequent data on the social and economic characteristics of the population. For areas with small population, the social and economic data are released as averages of several years. In this case, the data for many smaller New Mexico counties are available only as averages for 2005 to 2009.

In the most recent data, only two counties (Los Alamos and Sandoval) had higher median household income than the nation. Seven rural counties (Catron, De Baca, Guadalupe, Luna, Quay, San Miguel, and Sierra) had median household incomes below 60 percent of the national average.

In 2009, poverty rates (Table 1.6) of individuals in New Mexico (18.2 percent) were also higher than the nation (14.3 percent). In 2009, only three Non-MSA counties (Eddy, Los Alamos, and Sandoval) had a poverty rate lower than the national average.

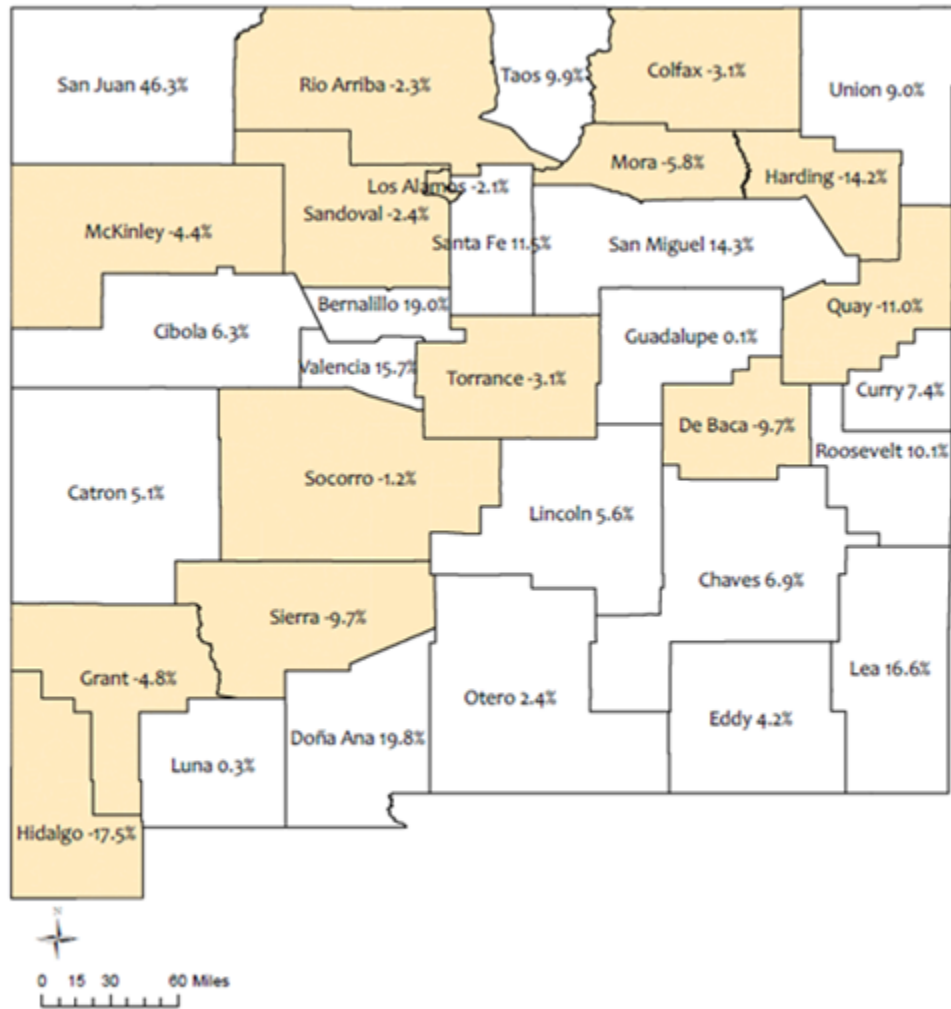
In short, New Mexico's non-metropolitan counties generally exhibit a slow-growing or declining population, low population density, relatively low income levels, and high poverty rates.



Map 2

Population Change in New Mexico: 2000 to 2010

(14 shaded counties lost population between 2000 and 2010)

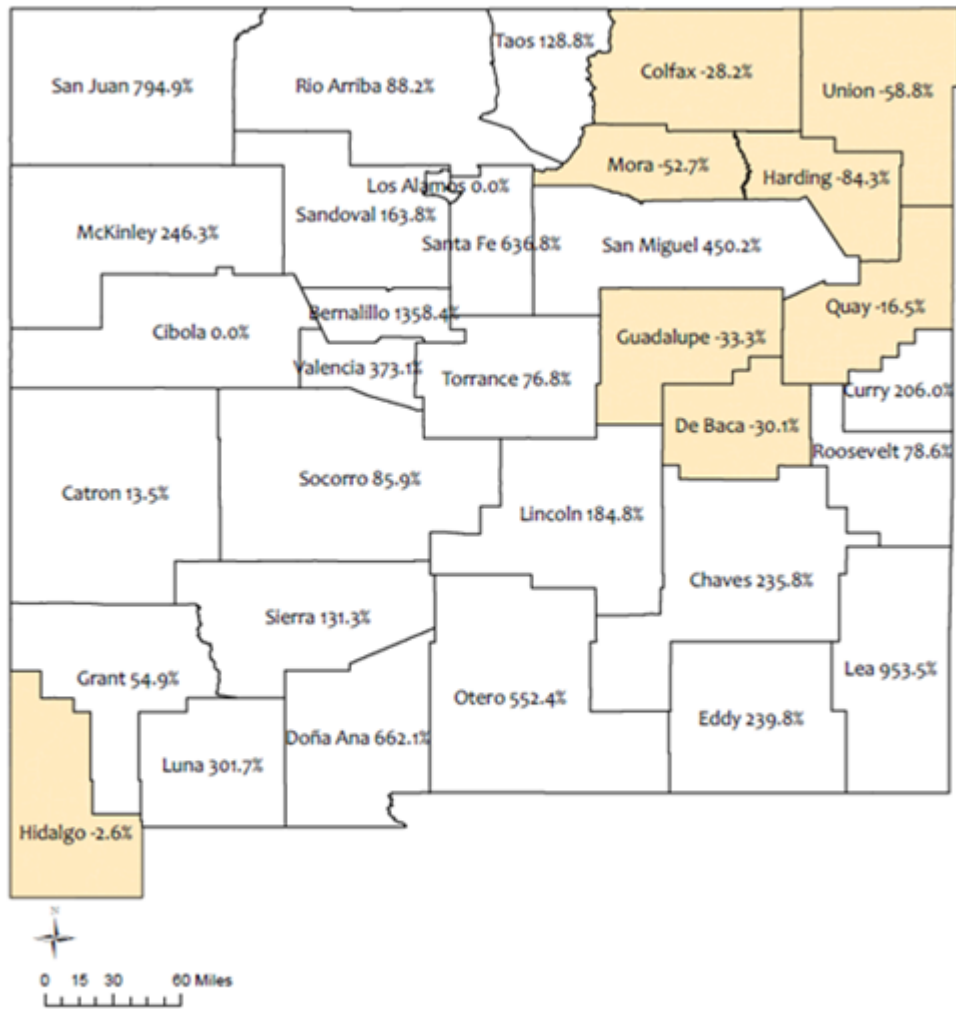


Source: Arrowhead Center, New Mexico State University. Based on U.S. Bureau of the Census data. <http://www.factfinder.gov>.

**Map 3**

**Population Change in New Mexico: 1930 to 2010**

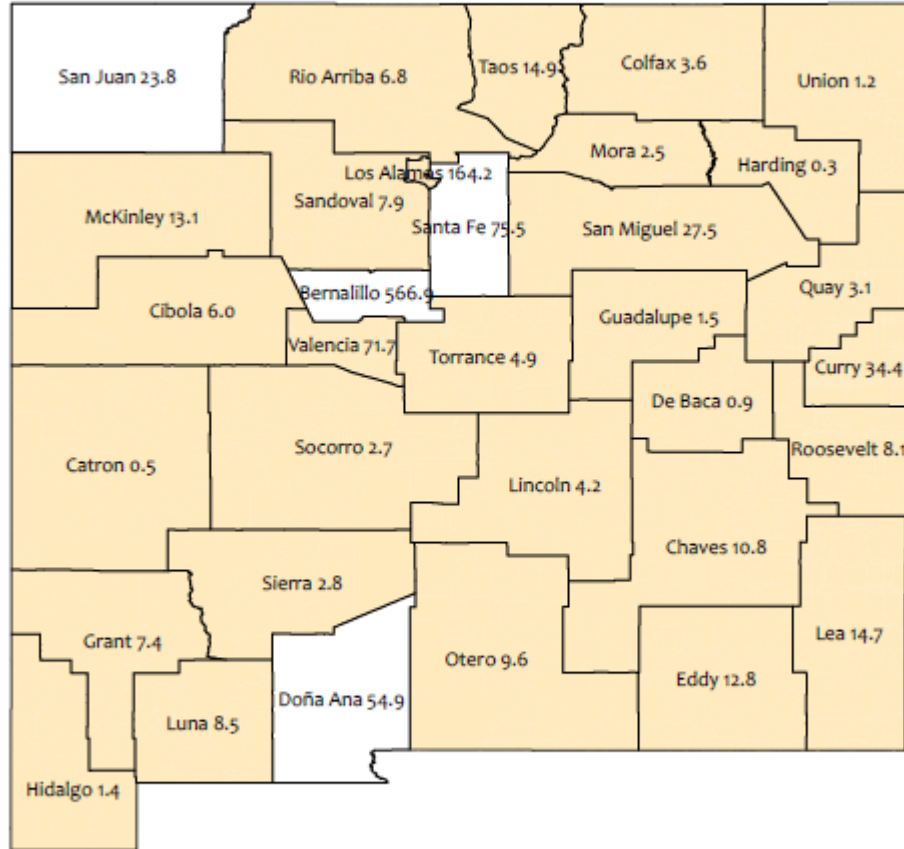
(8 shaded counties had smaller population size in 2010 than in 1930)



Source: Arrowhead Center, New Mexico State University. Based on U.S. Bureau of the Census data. [Http://www.factfinder.gov](http://www.factfinder.gov).

**Map 4**

**Population Density New Mexico Counties: 2010  
(persons per square mile, non-MSA Counties Shaded)**



Source: Arrowhead Center, New Mexico State University. Based on U.S. Bureau of the Census data. [Http://www.factfinder.gov](http://www.factfinder.gov).

**Table 1.3**  
**Basic Demographic Data for New Mexico and its Counties**

| Area                    | Area<br>(Square<br>Miles) | Population<br>2000 | Population<br>2010 | Percent<br>Change in<br>Population<br>2000 to 2010 | Population<br>Density 2010<br>(Persons per<br>Square Mile) |
|-------------------------|---------------------------|--------------------|--------------------|--|--|
| <b>MSA Counties</b>     |                           |                    |                    |  |  |
| Bernalillo County       | 1,169                     | 556,678            | 662,564            | 19.0   | 566.9  |
| Dona Ana County         | 3,815                     | 174,682            | 209,233            | 19.8   | 54.9   |
| San Juan County         | 5,538                     | 89,908             | 131,561            | 46.3   | 23.8   |
| Santa Fe County         | 1,911                     | 129,292            | 144,170            | 11.5   | 75.5   |
| <b>MSA Sub-total</b>    | <b>12,432</b>             | <b>950,560</b>     | <b>1,147,528</b>   | <b>20.7</b>  | <b>92.3</b>  |
| <b>Non-MSA counties</b> |                           |                    |                    |  |  |
| Catron County           | 6,929                     | 3,543              | 3,725              | 5.1  | 0.5  |
| Chaves County           | 6,075                     | 61,382             | 65,645             | 6.9  | 10.8   |
| Cibola County           | 4,542                     | 25,595             | 27,213             | 6.3  | 6.0  |
| Colfax County           | 3,768                     | 14,189             | 13,750             | -3.1   | 3.6  |
| Curry County            | 1,408                     | 45,044             | 48,376             | 7.4  | 34.4   |
| De Baca County          | 2,334                     | 2,240              | 2,022              | -9.7   | 0.9  |
| Eddy County             | 4,198                     | 51,658             | 53,829             | 4.2  | 12.8   |
| Grant County            | 3,968                     | 31,002             | 29,514             | -4.8   | 7.4  |
| Guadalupe County        | 3,032                     | 4,680              | 4,687              | 0.1  | 1.5  |
| Harding County          | 2,126                     | 810                | 695                | -14.2  | 0.3  |
| Hidalgo County          | 3,446                     | 5,932              | 4,894              | -17.5  | 1.4  |
| Lea County              | 4,394                     | 55,511             | 64,727             | 16.6   | 14.7   |
| Lincoln County          | 4,831                     | 19,411             | 20,497             | 5.6  | 4.2  |
| Los Alamos County       | 109                       | 18,343             | 17,950             | -2.1   | 164.2  |
| Luna County             | 2,965                     | 25,016             | 25,095             | 0.3  | 8.5  |
| McKinley County         | 5,455                     | 74,798             | 71,492             | -4.4   | 13.1   |
| Mora County             | 1,933                     | 5,180              | 4,881              | -5.8   | 2.5  |
| Otero County            | 6,627                     | 62,298             | 63,797             | 2.4  | 9.6  |
| Quay County             | 2,882                     | 10,155             | 9,041              | -11.0  | 3.1  |
| Rio Arriba County       | 5,896                     | 41,190             | 40,246             | -2.3   | 6.8  |
| Roosevelt County        | 2,455                     | 18,018             | 19,846             | 10.1   | 8.1  |
| Sandoval County         | 3,714                     | 30,126             | 29,393             | -2.4   | 7.9  |
| San Miguel County       | 4,736                     | 113,801            | 130,044            | 14.3   | 27.5   |
| Sierra County           | 4,236                     | 13,270             | 11,988             | -9.7   | 2.8  |
| Socorro County          | 6,649                     | 18,078             | 17,866             | -1.2   | 2.7  |
| Taos County             | 2,205                     | 29,979             | 32,937             | 9.9  | 14.9   |
| Torrance County         | 3,346                     | 16,911             | 16,383             | -3.1   | 4.9  |
| Union County            | 3,831                     | 4,174              | 4,549              | 9.0  | 1.2  |
| Valencia County         | 1,068                     | 66,152             | 76,569             | 15.7   | 71.7   |
| <b>Non-MSA counties</b> | <b>109,157</b>            | <b>868,486</b>     | <b>911,651</b>     | <b>5.0</b>   | <b>8.4</b>   |
| <b>New Mexico</b>       | <b>121,589</b>            | <b>1,819,046</b>   | <b>2,059,179</b>   | <b>13.2</b>  | <b>16.9</b>  |

Sources: Land Area, U.S. Bureau of the Census, State and County Quick Facts (<http://quickfacts.census.gov>). Population 2000 and 2010: U.S. Bureau of the Census, American Factfinder2, <http://factfinder2.gov>.

Table 1.4

## Labor Market Data for New Mexico Counties, New Mexico and the United States: 2010

|                         | Labor Force        | Employed           | Unemployed        | Unemployment Rate |
|-------------------------|--------------------|--------------------|-------------------|-------------------|
| <b>MSA Counties</b>     |                    |                    |                   |                   |
| Bernalillo County       | 313,345            | 286,762            | 26,583            | 8.5               |
| Dona Ana County         | 93,644             | 86,005             | 7,639             | 8.2               |
| San Juan County         | 56,513             | 51,107             | 5,406             | 9.6               |
| Santa Fe County         | 77,296             | 71,844             | 5,452             | 7.1               |
| <b>MSA Average</b>      | <b>540,798</b>     | <b>495,718</b>     | <b>45,080</b>     | <b>8.3</b>        |
| <b>Non-MSA counties</b> |                    |                    |                   |                   |
| Catron County           | 1,604              | 1,452              | 152               | 9.5               |
| Chaves County           | 27,507             | 25,267             | 2,240             | 8.1               |
| Cibola County           | 12,532             | 11,557             | 975               | 7.8               |
| Colfax County           | 6,686              | 6,114              | 572               | 8.6               |
| Curry County            | 21,795             | 20,616             | 1,179             | 5.4               |
| De Baca County          | 839                | 791                | 48                | 5.7               |
| Eddy County             | 28,869             | 27,135             | 1,734             | 6.0               |
| Grant County            | 11,638             | 10,369             | 1,269             | 10.9              |
| Guadalupe County        | 1,805              | 1,618              | 187               | 10.4              |
| Harding County          | 384                | 364                | 20                | 5.2               |
| Hidalgo County          | 2,716              | 2,502              | 214               | 7.9               |
| Lea County              | 28,275             | 26,110             | 2,165             | 7.7               |
| Lincoln County          | 11,002             | 10,249             | 753               | 6.8               |
| Los Alamos County       | 10,330             | 9,949              | 381               | 3.7               |
| Luna County             | 12,996             | 10,560             | 2,436             | 18.7              |
| McKinley County         | 27,521             | 24,869             | 2,652             | 9.6               |
| Mora County             | 2,046              | 1,725              | 321               | 15.7              |
| Otero County            | 26,451             | 24,489             | 1,962             | 7.4               |
| Quay County             | 4,029              | 3,678              | 351               | 8.7               |
| Rio Arriba County       | 20,438             | 18,661             | 1,777             | 8.7               |
| Roosevelt County        | 9,338              | 8,785              | 553               | 5.9               |
| Sandoval County         | 56,829             | 51,535             | 5,294             | 9.3               |
| San Miguel County       | 13,364             | 12,230             | 1,134             | 8.5               |
| Sierra County           | 6,111              | 5,694              | 417               | 6.8               |
| Socorro County          | 9,526              | 8,943              | 583               | 6.1               |
| Taos County             | 17,636             | 15,875             | 1,761             | 10.0              |
| Torrance County         | 6,975              | 6,255              | 720               | 10.3              |
| Union County            | 1,906              | 1,784              | 122               | 6.4               |
| Valencia County         | 31,377             | 28,223             | 3,154             | 10.1              |
| <b>Non-MSA counties</b> | <b>412,525</b>     | <b>377,399</b>     | <b>35,126</b>     | <b>8.5</b>        |
| <b>New Mexico</b>       | <b>953,314</b>     | <b>873,112</b>     | <b>80,202</b>     | <b>8.4</b>        |
| <b>United States</b>    | <b>153,889,000</b> | <b>139,064,000</b> | <b>14,825,000</b> | <b>9.6</b>        |

Sources: New Mexico and Counties, U.S. Bureau of Labor Statics, Local Area Unemployment Statistics and Current Popualtion Surve. <http://www.bls.gov/data/>

Table 1.5

## Median Household Income in New Mexico and its Counties: 2000 and 2010

| Area                    | Median Household Income 2000 | Median Household Income 2005-2009* | Percent Change in Median Household Income | Percent of                        |   |
|-------------------------|------------------------------|------------------------------------|---|-----------------------------------|---|
|                         |                              |                                    |   | U.S. Median Household Income 2000 | Percent of US Median Household Income 2005-2009 |
| <b>MSA Counties</b>     |                              |                                    |   |                                   |   |
| Bernalillo County       | 38,788                       | 46,121                             | 18.9                                      | 92.4                              | 89.7  |
| Dona Ana County         | 29,808                       | 35,544                             | 19.2                                      | 71.0                              | 69.1  |
| San Juan County         | 33,762                       | 45,361                             | 34.4                                      | 80.4                              | 88.2  |
| Santa Fe County         | 42,207                       | 52,923                             | 25.4                                      | 100.5                             | 102.9   |
| <b>MSA Average</b>      | <b>36,141</b>                | <b>44,987</b>                      | <b>24.5</b>                               | <b>86.1</b>                       | <b>87.5</b>                                     |
| <b>Non-MSA counties</b> |                              |                                    |   |                                   |   |
| Catron County           | 23,892                       | 30,413                             | 27.3                                      | 56.9                              | 59.1  |
| Chaves County           | 28,513                       | 36,445                             | 27.8                                      | 67.9                              | 70.9  |
| Cibola County           | 27,754                       | 35,146                             | 26.6                                      | 66.1                              | 68.3  |
| Colfax County           | 30,744                       | 39,243                             | 27.6                                      | 73.2                              | 76.3  |
| Curry County            | 28,917                       | 36,621                             | 26.6                                      | 68.9                              | 71.2  |
| De Baca County          | 25,441                       | 27,821                             | 9.4                                       | 60.6                              | 54.1  |
| Eddy County             | 31,998                       | 44,510                             | 39.1                                      | 76.2                              | 86.6  |
| Grant County            | 29,134                       | 35,896                             | 23.2                                      | 69.4                              | 69.8  |
| Guadalupe County        | 24,783                       | 29,085                             | 17.4                                      | 59.0                              | 56.6  |
| Harding County          | 26,111                       | 31,042                             | 18.9                                      | 62.2                              | 60.4  |
| Hidalgo County          | 24,819                       | 39,020                             | 57.2                                      | 59.1                              | 75.9  |
| Lea County              | 29,799                       | 42,816                             | 43.7                                      | 71.0                              | 83.3  |
| Lincoln County          | 33,886                       | 44,079                             | 30.1                                      | 80.7                              | 85.7  |
| Los Alamos County       | 78,993                       | 100,423                            | 27.1                                      | 188.1                             | 195.3   |
| Luna County             | 20,784                       | 26,661                             | 28.3                                      | 49.5                              | 51.8  |
| McKinley County         | 25,005                       | 32,615                             | 30.4                                      | 59.5                              | 63.4  |
| Mora County             | 24,518                       | 33,622                             | 37.1                                      | 58.4                              | 65.4  |
| Otero County            | 30,861                       | 38,262                             | 24.0                                      | 73.5                              | 74.4  |
| Quay County             | 24,894                       | 29,737                             | 19.5                                      | 59.3                              | 57.8  |
| Rio Arriba County       | 29,429                       | 45,514                             | 54.7                                      | 70.1                              | 88.5  |
| Roosevelt County        | 26,586                       | 32,163                             | 21.0                                      | 63.3                              | 62.5  |
| Sandoval County         | 44,949                       | 56,703                             | 26.1                                      | 107.0                             | 110.3   |
| San Miguel County       | 26,524                       | 30,356                             | 14.4                                      | 63.2                              | 59.0  |
| Sierra County           | 24,152                       | 25,642                             | 6.2                                       | 57.5                              | 49.9  |
| Socorro County          | 23,439                       | 32,323                             | 37.9                                      | 55.8                              | 62.9  |
| Taos County             | 26,762                       | 35,800                             | 33.8                                      | 63.7                              | 69.6  |
| Torrance County         | 30,446                       | 35,146                             | 15.4                                      | 72.5                              | 68.3  |
| Union County            | 28,080                       | 37,415                             | 33.2                                      | 66.9                              | 72.8  |
| Valencia County         | 34,099                       | 42,955                             | 26.0                                      | 81.2                              | 83.5  |
| <b>Non-MSA counties</b> | <b>30,765</b>                | <b>39,189</b>                      | <b>27.4</b>                               | <b>73.3</b>                       | <b>76.2</b>                                     |
| <b>New Mexico</b>       | <b>34,133</b>                | <b>42,742</b>                      | <b>25.2</b>                               | <b>81.3</b>                       | <b>83.1</b>                                     |
| <b>United States</b>    | <b>41,994</b>                | <b>51,425</b>                      | <b>22.5</b>                               | <b>100.0</b>                      | <b>100.0</b>                                    |

Sources: Household Income in 2000: U.S. Bureau of the Census, Census of Population and Housing, American Factfinder. Household Income 2005-2009, U.S. Bureau of the Census, American Community Survey, 2005-2009, detailed tables.

American Factfinder, <http://factfinder2.gov>.

**Table 1.6**

**Poverty Status in New Mexico Counties, New Mexico and the United States**

**All individuals for whom poverty status is determined**

**Percent below poverty level**

|                               | Census 2000 | 2009 | Percent Change | Percent of US 2009 |
|-------------------------------|-------------|------|----------------|--------------------|
| United States                 | 12.4        | 14.3 | 15.3           | 100.0              |
| New Mexico                    | 18.4        | 18.2 | -1.1           | 127.3              |
| <b>MSA</b>                    |             |      |                |                    |
| Bernalillo County, New Mexico | 13.7        | 15.6 | 13.9           | 109.1              |
| Dona Ana County, New Mexico   | 25.4        | 24.8 | -2.4           | 173.4              |
| Santa Fe County, New Mexico   | 12.0        | 12.7 | 5.8            | 88.8               |
| San Juan County, New Mexico   | 21.5        | 20.6 | -4.2           | 144.1              |
| MSA Counties (Average)        | 18.2        | 18.4 | 3.3            | 128.8              |
| <b>Non-MSA</b>                |             |      |                |                    |
| Catron County, New Mexico     | 24.5        | 22.0 | -10.2          | 153.8              |
| Chaves County, New Mexico     | 21.3        | 20.8 | -2.3           | 145.5              |
| Cibola County, New Mexico     | 24.8        | 25.8 | 4.0            | 180.4              |
| Colfax County, New Mexico     | 14.8        | 17.3 | 16.9           | 121.0              |
| Curry County, New Mexico      | 19.0        | 17.9 | -5.8           | 125.2              |
| De Baca County, New Mexico    | 17.7        | 21.9 | 23.7           | 153.1              |
| Eddy County, New Mexico       | 17.2        | 13.6 | -20.9          | 95.1               |
| Grant County, New Mexico      | 18.7        | 19.5 | 4.3            | 136.4              |
| Guadalupe County, New Mexico  | 21.6        | 25.9 | 19.9           | 181.1              |
| Harding County, New Mexico    | 16.3        | 15.8 | -3.1           | 110.5              |
| Hidalgo County, New Mexico    | 27.3        | 23.6 | -13.6          | 165.0              |
| Lea County, New Mexico        | 21.1        | 15.2 | -28.0          | 106.3              |
| Lincoln County, New Mexico    | 14.9        | 17.4 | 16.8           | 121.7              |
| Los Alamos County, New Mexico | 2.9         | 3.1  | 6.9            | 21.7               |
| Luna County, New Mexico       | 32.9        | 30.5 | -7.3           | 213.3              |
| McKinley County, New Mexico   | 36.1        | 28.4 | -21.3          | 198.6              |
| Mora County, New Mexico       | 25.4        | 23.5 | -7.5           | 164.3              |
| Otero County, New Mexico      | 19.3        | 20.2 | 4.7            | 141.3              |
| Quay County, New Mexico       | 20.9        | 23.9 | 14.4           | 167.1              |
| Rio Arriba County, New Mexico | 20.3        | 18.9 | -6.9           | 132.2              |
| Roosevelt County, New Mexico  | 22.7        | 22.1 | -2.6           | 154.5              |
| Sandoval County, New Mexico   | 12.1        | 11.0 | -9.1           | 76.9               |
| San Miguel County, New Mexico | 24.4        | 24.8 | 1.6            | 173.4              |
| Sierra County, New Mexico     | 20.9        | 27.0 | 29.2           | 188.8              |
| Socorro County, New Mexico    | 31.7        | 28.1 | -11.4          | 196.5              |
| Taos County, New Mexico       | 20.9        | 19.7 | -5.7           | 137.8              |
| Torrance County, New Mexico   | 19.0        | 24.5 | 28.9           | 171.3              |
| Union County, New Mexico      | 18.1        | 16.1 | -11.0          | 112.6              |
| Valencia County, New Mexico   | 16.8        | 20.2 | 20.2           | 141.3              |
| NON-MSA Average               | 20.8        | 20.6 | 0.9            | 144.4              |

Source: U.S. Census Bureau, Small Area Income and Poverty Estimates

<http://www.census.gov/did/www/saipe/county.html>

## The Methods of Economic Impact Analysis

Economic impact analysis is an attempt to measure the net change in economic activity in a given geographic area that results from an exogenous change in economic activity. Often, the change in economic activity refers to new spending or employment associated with a new business or a business expansion. The same techniques can be used to assess a contraction of economic activity such as the closure of a military base or, as in this case, the elimination of the Universal Service Fund payment mechanism for rural carriers.

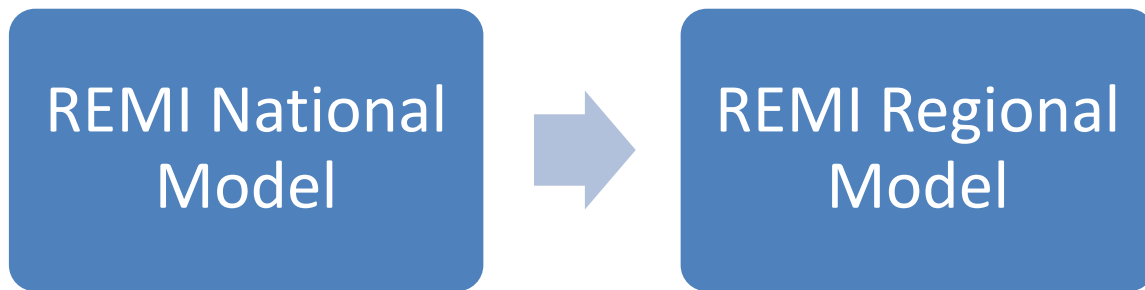
The main idea behind economic impact analysis is that one more (less) dollar spent in a local or regional economy results in a greater than one dollar change in economic activity in the area. The most common and widely-respected method of examining such changes involves the use economic models called input-output models. A key feature of input-output models is that they are ideally suited to capture relationships among industries. That is, input-output models are designed to capture the effects of a change in one industry on other industries and households.

Commonly used modeling systems to perform economic impact analysis are: RIMS II, REMI, and IMPLAN. All three modeling systems are based on the national input-output model produced by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce. The national model is scaled to state and county areas by the providers of the models. The three main regional models differ in their approach to scaling the national model, the number and type of variables included, and in the software provided.

The RIMS II (regional input-output modeling system) system is produced by the U.S. Department of Commerce, Bureau of Economic Analysis (<http://www.bea.gov/regional/rims/index.cfm>). The REMI models are privately produced and customized to user specified geography by REMI (Regional Economic Models), Inc. (<http://www.remi.com/>). The IMPLAN model was originally developed for the U.S. Forest Service but for many years it has been maintained and sold by the Minnesota Implan Group, Inc. (<http://www.implan.com/>).

The model used to produce the estimates in this report is a New Mexico specific REMI model (REMI PI+ Version 1.2.6) with 169 economic sectors. The characteristics of the REMI models are well known (Rickman and Schewer 1995; Treyz, Rickman, and Shao 1991). Briefly, the REMI models are long-run, dynamic models. The simulation period currently runs to 2050 and history data on most variables are available from 1990. The models are based on annual data. The REMI national model interacts directly with one or more regional models as shown in the following diagram.





The regional models can contain any combination of counties or county equivalents. The regional model used in this analysis is for the State of New Mexico (Version 1.2.6 updated January 2011).

While the key driver of the REMI models (national and state) is an input-output (Leontief model) derived from the national I-O model produced by the Bureau of Economic Analysis, REMI models contain more than a static I-O model. The models also incorporate Computable General Equilibrium (CGE) techniques, single year of age cohort-component population projection models, and equations based on the New Economic Geography (Krugman 1998). Additional information about REMI models can be found at the REMI, Inc. website: [www.remi.com](http://www.remi.com).

There are three main areas of concern in estimating local economic impacts. First, the new spending (or reduction in spending) must, in fact, be new to the geographic area being considered. The proposed FCC rule changes eliminating USF distributions to New Mexico's rural carriers meet the 'new' criterion without controversy. Second, the size of the local economy matters. In general, the smaller the local economy under consideration, the more likely it is for firms operating locally to obtain inputs from outside the area. In this report, the economic impacts are examined at the state level. Third, supply constraints in the local economy are usually important. Given the recent recession (2007 to 2009) and the relatively slow recovery both nationally and in New Mexico, excess capacity is likely to continue for several years and supply constraints are not a significant issue.

## Economic Impacts

In 2010, the eleven members of the New Mexico Exchange Carriers Group participating in this analysis received \$34,554,682 in USF revenue or about 32 percent of total revenue. The estimation approach taken in this report reduces the USF revenue source by the reported amount beginning in calendar year 2012. Simulations of the New Mexico REMI model were conducted over the 2012 to 2021 time frame. The REMI model is a dynamic model in which events in one year often have impacts in subsequent years. The estimated impacts reported below are presented in terms of differences from the REMI baseline forecast.

Estimated impacts are presented for employment (total, private sector, and public sector), personal income, wage and salary disbursements, and Gross Domestic Product. These terms are defined as follows:

- Employment refers to full and part-time jobs.
- Personal Income refers to income received by persons from all sources. It includes income received from participation in production as well as from government and business transfer payments. The largest component of personal income is wage and salary disbursements.
- Wage and Salary Disbursements includes both private and public sector wage and salary payments including benefits.
- Gross Domestic Product is a value added concept. Value added refers to the change in value of a product or commodity at each stage of the production process. As reported here, GDP refers to New Mexico GDP.

The impact estimates are reported as total impacts and include the direct, indirect, and induced effects of the decrease in spending due to the change in USF revenue streams. These terms are defined below and a glossary of terms is provided at the end of the report.

- Direct effects are the immediate (or first-round) consequences of a change in economic activity or policy. For example, if a firm spends \$1 million on construction of a new building, the direct effect on output (sales) in the construction sector is \$1 million. If 8 workers are employed on the construction of the building, then those 8 workers are also a direct effect.
- Indirect effects occur because industries purchase inputs from other industries. If a construction project requires steel beams, there will be indirect effects on iron mining and coke producing industries.
- Induced effects result from households spending the wage and salary income received by those employed directly or indirectly on the new activity.
- Total effects refer to the sum of direct, indirect, and induced effects.

The impacts are reported in Table 1.7 for four time horizons. Because both the REMI model and the economy do not behave in a linear fashion over time, it is inappropriate to use the results for a single year to extrapolate to a multi-year time-frame. The results reported here include results for a single year (2012), two five year periods (2012 to 2016 and 2017 to 2021), and a ten year period (2012 to 2021).

The estimated impacts in 2012 include the loss of 99 jobs in the telecommunications industry, 261 private sector jobs, and a total employment loss of 335 jobs. The projected loss of 99 jobs in the telecommunications industry is 19.1 percent of total employment (518 jobs) reported in 2010 by the eleven participating members of NMCEG. The implied employment multipliers are 2.64 for private non-farm employment and 3.38 for total employment. These employment multipliers reflect the fact that the telecommunications industry has strong linkages with other economic sectors. The loss in New Mexico personal income in 2012 associated with employment losses is \$14.1 million or \$42,985 per job.

During the five year period from 2012 to 2016, the loss of USF funding is associated with a loss of 452 jobs in the telecommunications industry, a decrease of 1,315 private non-farm jobs, and a loss of 1,696 total jobs. The five year implied employment multipliers are 2.91 for private non-farm jobs and 3.75 for total jobs. The higher employment multipliers for the five year period compared to the single year period reflect the dynamic characteristics of the model and the economy. The five-year job loss is associated with a loss of \$89.3 million in New Mexico personal income or \$52,653 per job.

In the second five-year period (2017 to 2021), the telecommunications industry is estimated to lose 353 jobs, private non-farm employment is estimated to decrease by 1,086 jobs, and total employment is estimated to decrease by 1,450 jobs. The smaller job effects in the second five-year period reflect industry adjustment to the loss of USF funds. The projected job losses in the second five year period are associated with a decrease in New Mexico personal income of \$111.0 million.

Over the ten year projection period (2012 to 2021), the telecommunications industry is estimated to lose a total of 805 jobs or about 80 jobs per year. During this period, private non-farm employment is estimated to decrease by 2,400 jobs while total employment is projected to decrease by 3,146 jobs. New Mexico personal income is projected to decrease by \$200.3 million during the ten year projection period.

The projected New Mexico tax revenue implications of the FCC proposal are presented in the next section.

**Table 1.7**  
**Economic Impacts of Eliminating Universal Service Funds in New Mexico\***

|                                     |                     | 2012  | 2012 to 2016 | 2017 to 2021 | 2012 to 2021 |
|-------------------------------------|---------------------|-------|--------------|--------------|--------------|
| Total Employment                    | Jobs                | -335  | -1,696       | -1,450       | -3,146       |
| Private Non-Farm Employment         | Jobs                | -261  | -1,315       | -1,086       | -2,400       |
| Public Sector Employment            | Jobs                | -74   | -381         | -364         | -745         |
| Telecommunications                  | Jobs                | -99   | -452         | -353         | -805         |
| Personal Income                     | Millions of \$      | -14.4 | -89.3        | -111.0       | -200.3       |
| Total Wage and Salary Disbursements | Millions of \$      | -13.1 | -77.6        | -87.2        | -164.7       |
| Gross Domestic Product              | Millions of 2010 \$ | -39.4 | -208.1       | -212.4       | -420.5       |

\*Analysis based on 11 of 13 NMCEG Carriers

Source: REMI PI + (version 1.2.6) simulations. Differences from baseline.

## New Mexico Tax Impacts

The tax revenue impacts of the elimination of the Universal Service Fund have been estimated for four broad categories of New Mexico taxes: Gross Receipts taxes (GRT), Personal Income Taxes (PIT), Corporate Income Taxes (CIT), and all other taxes. Combined, GRT, PIT, and CIT accounted for 77 percent of all New Mexico Tax revenue between 2001 through 2009. The all other tax category consists mainly of severance taxes, property taxes, and various licenses and fees. In a typical year, severance taxes account for about three-quarters of the all other tax category. The elimination of the USF should have little or no impact on severance taxes and these have been eliminated from the other tax category estimates.

The tax revenue estimates reported here are based on effective tax rates (Table 1.8) averaged over the 2001 to 2009 period. The main reason for using effective tax rates instead of statutory rates is to avoid the nearly impossible task of estimating deductions and exemptions. The effective tax rates represent the proportion of personal income actually paid by New Mexicans on average between 2001 and 2009. For the purpose of estimating tax revenue, the important issue is the stability of the effective tax rates from year to year. Labor income based effective tax rates satisfy this criterion. The variability of the effective tax rates as measured by the standard deviation of each rate (Table 1.8) is low.

**Table 1.8**

| <b>Effective Tax Rates (proportion of personal income)</b> |            |            |            |                  |              |
|--|------------|------------|------------|------------------|--------------|
| <b>Year</b>  | <b>GRT</b> | <b>PIT</b> | <b>CIT</b> | <b>All other</b> | <b>Total</b> |
| 2001   | 0.0460     | 0.0183     | 0.0042     | 0.0198           | 0.0883       |
| 2002   | 0.0393     | 0.0212     | 0.0027     | 0.0151           | 0.0783       |
| 2003   | 0.0389     | 0.0192     | 0.0021     | 0.0147           | 0.0749       |
| 2004   | 0.0395     | 0.0195     | 0.0027     | 0.0159           | 0.0776       |
| 2005   | 0.0392     | 0.0196     | 0.0044     | 0.0177           | 0.0809       |
| 2006   | 0.0403     | 0.0190     | 0.0064     | 0.0206           | 0.0862       |
| 2007   | 0.0419     | 0.0186     | 0.0073     | 0.0197           | 0.0875       |
| 2008   | 0.0401     | 0.0183     | 0.0053     | 0.0213           | 0.0851       |
| 2009   | 0.0377     | 0.0141     | 0.0031     | 0.0185           | 0.0733       |
| Mean   | 0.0403     | 0.0186     | 0.0042     | 0.0181           | 0.0813       |
| Std. Dev.  | 0.0023     | 0.0018     | 0.0017     | 0.0023           | 0.0053       |

Effective Tax Rates = specified tax divided by personal income

GRT includes gross receipts and selective sales taxes.

PIT refers to personal income taxes.

CIT refers to corporate income taxes.

Source: Author computations. New Mexico Tax data from U.S. Bureau of the Census, "State Government Tax Revenue". Personal Income data from REMI PI+.

<http://www.census.gov/govs/statetax/0832nmstax.html>

The estimated tax impacts are reported in Table 1.9. In the first year (2012), eliminating USF would result in an estimated tax revenue loss to the state of nearly a million dollars (\$978,000) with \$582,000 or 59.5 percent of this figure coming from reduced GRT revenue. For the five year period from 2012 to 2016 New Mexico tax revenues are estimated to decrease by \$6.053 million with \$3.603 million attributed to a decrease in GRT revenue. During the ten year projection period (2012 to 2021) the estimated total tax loss is \$13.569 million with \$8.077 million attributed to reduced GRT revenue.

**Table 1.9**

**Change in New Mexico Tax Revenue Associated with Universal Service Fund Elimination  
(Thousands of Dollars)**

|   | 2012        | 2012 to 2016  | 2017 to 2021  | 2012 to 2021   |
|---|-------------|---------------|---------------|----------------|
| Gross Receipts Tax                      | -582        | -3,603        | -4,474        | -8,077         |
| Personal Income Tax                     | -269        | -1,666        | -2,069        | -3,735         |
| Corporate Income Tax                    | -61         | -378          | -470          | -848           |
| Other Taxes (Excluding Severance Taxes) | -65         | -405          | -503          | -908           |
| <b>Total Tax Change</b>                 | <b>-978</b> | <b>-6,053</b> | <b>-7,516</b> | <b>-13,569</b> |

Source: Author Calculations.

## Summary and Concluding Remarks

The economic impacts of the elimination of Universal Service Funds to 11 of the 13 members of the New Mexico Exchange Carriers Group have been estimated in this report. The approach taken was to reduce USF revenue in the telecommunications sector of a long range, dynamic economic model (REMI PI+). The \$34.5 million reduction in USF funds was assumed to begin in 2012 and continue through 2021. The REMI model is designed to capture relationships among industries and households in a comprehensive fashion. The estimated impacts are reported as differences from a baseline projection in the REMI model.

The estimated impacts are substantial. The estimated impacts in 2012 include the loss of 99 jobs in the telecommunications industry, 261 private sector jobs, and a total employment loss of 335 jobs. Additional impacts in 2012 include reduced New Mexico personal income of \$14.1 million and a decrease in New Mexico tax revenue of \$978,000.

In the ten year projection period (2012 to 2021), the telecommunications industry is estimated to lose a total of 805 jobs or about 80 jobs per year. During this period, private non-farm employment is estimated to decrease by 2,400 jobs while total employment is projected to decrease by 3,146 jobs. New Mexico personal income is projected to decrease by \$200.3 million during the ten year projection period and State tax revenue would decline by 13.6 million.

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## Glossary

Direct effects are the immediate (or first-round) consequences of a change in economic activity or policy. For example, if a firm spends \$1 million on construction of a new building, the direct effect on output (sales) in the construction sector is \$1 million. If 8 workers are employed on the construction of the building, then those 8 workers are also a direct effect.

Employment refers to full and part-time jobs.

Final demand refers to the demand of ultimate consumers for goods and services. Final demand includes the demand of households, governments, inventory accumulation, and exports. See also, intermediate demand.

Gross Domestic Product (GDP) is defined as the market value of the final goods and services produced by labor and property located in the United States. Conceptually, this measure can be arrived at by three separate means: as the sum of goods and services sold to final users, as the sum of income payments and other costs incurred in the production of goods and services, and as the sum of the value added at each stage of production (chart 2.1). (Bureau of Economic Analysis, Concepts and methods of the National Income and Product Accounts, page 2-7. <http://www.bea.gov/national/pdf/NIPAhandbookch1-4.pdf>)

Indirect effects occur because industries purchase inputs from other industries. If a construction project requires steel beams, there will be indirect effects on iron mining and coke producing industries.

Induced effects result from households spending the wage and salary income received by those employed directly or indirectly on the new activity.

Input-output model refers to a type of economic model designed to capture relationships among industries and ultimate consumers.

Intermediate demand refers to the demand of industry for the goods and services produced by other industries that will be used in the production process.

Labor income consists of employee compensation (including benefits), supplements to wages and salaries (such as employer contributions to pension funds), and proprietor's income.

Output refers to gross industry sales or expenditures depending on the consequences.

Total effects refer to the sum of direct, indirect, and induced effects.

Total Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance. The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are



presented by the place of residence of the income recipients. (Bureau of Economic Analysis, [http://www.bea.gov/regional/definitions/nextpage.cfm?key=Total personal Income](http://www.bea.gov/regional/definitions/nextpage.cfm?key=Total%20personal%20Income))

Value added refers to the change in value of a good or service during each stage of production. Gross Domestic Product is a value added concept.



## About Arrowhead Center

New Mexico State University's Arrowhead Center fosters sustainable economic development by utilizing a comprehensive approach to generate jobs, wealth, and enhanced quality of life in New Mexico. The Arrowhead Center focuses on the interrelated activities of technology commercialization, entrepreneurship, economic studies/policy analysis, workforce analyses, research park development, and business incubation that lead to economic development. One of the Arrowhead Center's key strategies to accomplish its economic development mission is providing value-added solutions to unmet needs in the region, and to work collaboratively with other economic and business development organizations.

The Arrowhead Center performs its role through two mechanisms, as an organizational unit of NMSU staffed primarily by NMSU personnel, including faculty, staff, and students, and as a non-profit corporation established in 2004, governed by a Board of Directors. The Corporation's Board is comprised of academic, business, and economic development leaders, providing the direction necessary to focus resources across New Mexico State University elements on the challenges of economic development.

The Arrowhead Center performs wide-ranging services that contribute to the creation and expansion of small businesses in New Mexico. These services and products include:

- Business assistance, including business plan development
- Entrepreneurship education and training
- Analysis of policy issues affecting New Mexico
- Incubating businesses in the Arrowhead Business and Research Park
- Identification of labor and training needs associated with commercial enterprises
- Spin-off of commercially viable business concepts and technologies
- Protection of, licensing, and commercialization of NMSU intellectual property
- Connection of key players in the business and economic development process

The Arrowhead Center has been in existence since 2004, with rapid growth in services provided to faculty, staff, students, entrepreneurs, small business, investors, and venture capitalists. Since its inception, the Center has completed more than 200 business research projects involving more than 300 undergraduate and graduate students, fostered the spin-off of a university genetics testing laboratory resulting in a new for-profit corporation, and completed several state-level economic studies. The Arrowhead Center has exceeded expectations and continues to provide quality services to New Mexico.

## **Board of Directors of Arrowhead Center (As of December 2010)**

The Arrowhead Center's Board of Directors is comprised of leaders from New Mexico State University and at-large members from across New Mexico. Each Director was selected for their expertise, insight, and experience critical to the mission and strategic direction of the Arrowhead Center.

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