

MINUTES
of the
FOURTH MEETING
of the
REVENUE STABILIZATION AND TAX POLICY COMMITTEE

November 20-21, 2023
State Capitol, Room 322
Santa Fe

The fourth meeting of the Revenue Stabilization and Tax Policy Committee for the 2023 interim was called to order by Senator Benny Shendo, Jr., chair, on Monday, November 20, 2023, at 9:12 a.m. in Room 322 of the State Capitol in Santa Fe.

Present

Sen. Benny Shendo, Jr., Chair
Rep. Derrick J. Lente, Vice Chair
Rep. Micaela Lara Cadena
Sen. Pete Campos
Rep. Christine Chandler
Rep. Mark Duncan
Sen. Ron Griggs
Rep. Jason C. Harper
Rep. Susan K. Herrera
Sen. Harold Pope
Rep. Larry R. Scott
Sen. Elizabeth "Liz" Stefanics
Sen. Peter Wirth

Designees

Rep. Ambrose Castellano
Rep. Yanira Gurrola
Rep. Kristina Ortez (11/20)

Absent

Sen. Craig W. Brandt
Sen. William F. Burt
Rep. Doreen Y. Gallegos
Sen. George K. Muñoz
Rep. Linda Serrato

Sen. Katy M. Duhigg
Rep. Joanne J. Ferrary
Sen. Antonio Maestas
Rep. Alan T. Martinez
Rep. Rod Montoya
Sen. Gerald Ortiz y Pino
Sen. Shannon D. Pinto
Sen. Antoinette Sedillo Lopez
Sen. William E. Sharer

Special Advisory Members

Rep. Cynthia Borrego
Sen. Linda M. Lopez (11/21)
Sen. Bill Tallman

Guest Legislators

Rep. Tara L. Lujan (11/20)

Sen. Steven McCutcheon II (11/21)

(Attendance dates are noted for members not present for the entire meeting.)

Staff

Pam Stokes, Senior Staff Attorney, Legislative Council Service (LCS)

D. Martin Fischer, Staff Attorney, LCS

Ric Gaudet, Researcher, LCS

Rebecca Griego, Records Officer, LCS

Sonya Snyder, Committee Coordinator, LCS

Clinton Turner, Research and Fiscal Policy Analyst, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file and posted on the legislature's website.

References to Webcast

The time reference noted next to each agenda item in this document is cross-referenced to the webcast of the committee meeting, which can be found at www.nmlegis.gov, under the "Webcast" tab. The presentations made and committee discussions for agenda items can be found on the recorded webcast for this meeting.

Monday, November 20

Welcome and Introductions (9:12 a.m.)

Senator Shendo welcomed members, staff, presenters and those attending in person and via the webcast. Members of the committee introduced themselves.

Tax Expenditure Report (9:20 a.m.)

Stephanie Schardin Clarke, secretary, Taxation and Revenue Department (Tax & Rev), and Lucinda Sydow, chief economist, Tax & Rev, presented the annual Tax Expenditure Report published by the department. Secretary Schardin Clarke gave a primer on the nature of tax expenditures, including the difference between exclusions from the tax base, exemptions, deductions and credits. Ms. Sydow gave a detailed explanation of the data for several tax expenditures in the report. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=11/20/2023&ItemNumber=1>.

Annual Economic Development Incentives Update (10:38 a.m.)

Jon Clark, deputy secretary, Economic Development Department (EDD), updated the committee on several economic development incentives administered by the EDD, including the investment credit, the state dedication of gross receipts tax (GRT) revenues for Local Economic Development Act projects, the high-wage jobs tax credit, the rural job tax credit and the locomotive fuel tax GRT and compensating tax deductions. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20112023%20Item%202%20EDD%20Incentives%20Presentation.pdf>.

The Film Credits: Diving Into the Data (11:13 a.m.)

Deputy Secretary Clark; Amber Dodson, director, New Mexico Film Division (NM Film), EDD; and Shane Shariff, economist, NM Film, EDD, discussed in detail data derived from the film and television tax credits. Ms. Dodson discussed the components of the film incentives, including those for New Mexico film partners. Mr. Shariff discussed the economic impact of the film incentives and job figures associated with the industry. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20112023%20Item%203%20Film%20Diving%20into%20the%20Data.pdf>.

Approval of Minutes

On a motion duly made, the minutes of the October 19-20, 2023 meeting of the committee were approved without changes.

The Role of Business Taxes, Incentives and Other State Policies in Economic Development (1:25 p.m.)

Timothy Bartik, Ph.D., senior economist, W.E. Upjohn Institute for Employment Research, discussed how tax incentives, business taxes and other state policies affect economic development and per capita earnings of state residents. He discussed data that showed the present value of the cost per job created of many policy options, starting with the most expensive option, general business tax cuts, to targeted tax incentives, infrastructure investment, customized training and the cheapest policy option, business advice. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20112023%20Item%204%20Bartik%20Presentation.pdf>.

Proposed Extension of the Angel Investment Tax Credit (2:15 p.m.)

John Rice, chief executive officer (CEO), AsiQ, LLC, and board member, New Mexico Angels, and Chris Ziomek, founder and CEO, Build With Robots, discussed a proposal to extend the angel investment tax credit. Mr. Rice discussed the importance of angel investors for small businesses looking to expand, as well as how the tax credit works. Mr. Ziomek described the

nature of his company and how the \$5 million investment into the company by angel investors has helped add 25 jobs and \$4.7 million in annual revenues. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20112023%20Item%205%20Proposed%20Extension%20of%20Angel%20Investment%20Credit.pdf>.

Improving Child Well-Being Through Tax Policy: Progress and Proposals (2:32 p.m.)

Bill Jordan, government relations officer, New Mexico Voices for Children (NM Voices), and Paige Knight, deputy policy director, NM Voices, discussed strategies designed to improve child well-being through tax policy. Mr. Jordan discussed recent progress made in tax policy that impacted children and families. Ms. Knight discussed additional policy proposals to increase revenue and improve child well-being, including increasing the child tax credit, restructuring personal income tax rates, reducing the GRT rate, repealing the capital gains deduction and reforming the corporate income tax. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20112023%20Item%207%20Voices%20Presentation.pdf>.

Report: The Laboratory Partnership with Small Business Tax Credit and the Technology Readiness Gross Receipts (TRGR) Tax Credit (3:49 p.m.)

Julia Wise, Ph.D., program manager, New Mexico Small Business Assistance and TRGR Technology Readiness Initiative, Los Alamos National Laboratory; David Kistin, manager, Technology and Economic Development, Sandia National Laboratories; TD Raymond, chief technology officer, Scintellite, LLC; and Paul Laur, chief operating officer, Mercury Bio, discussed the tax credits associated with the national laboratories that are designed to provide technical assistance to small businesses.

Mr. Kistin began by discussing the nature of the tax credits and the partnerships between the national laboratories and small businesses around the state. Ms. Wise discussed the technology readiness initiative that allows the national laboratories to license technologies to New Mexico businesses and also receive a tax credit for the collaboration between the laboratory and the business. Mr. Raymond discussed an ophthalmic screening device that Scintellite, LLC is developing to improve vision diagnostic care. Mr. Laur discussed the new medical delivery system Mercury Bio is developing to improve delivery of various pharmaceuticals. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=11/20/2023&ItemNumber=6>.

Recess

The meeting recessed at 4:25 p.m.

Tuesday, November 21

Reconvene

The meeting was reconvened by Senator Shendo at 9:06 a.m.

GRT Distributions to Local Governments (9:08 a.m.)

Secretary Schardin Clarke and Ms. Sydow discussed various distributions of tax revenue to local governments. Ms. Sydow discussed how the county equalization distribution attempts to equalize the revenue of counties by distributing a portion of state GRT revenue to counties based on each county's population and tax revenue density. Secretary Schardin Clarke discussed distributions from the Small Cities Assistance Fund, which consists of 15 percent of revenues from the compensating tax. Ms. Sydow then discussed distributions from the Small Counties Assistance Fund, which consists of 10 percent of revenues from the compensating tax. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20112023%20Item%208%20Tax%20&%20Rev%20Local%20GRT%20Distributions.pdf>.

County-Level Revenue and Expenditure Analysis Report (10:05 a.m.)

Ernie Carlson, commissioner, Eddy County Board of County Commissioners, and Kramer Winingham, DED, program director, Arrowhead Center, New Mexico State University, discussed a revenue and expenditure analysis from 2015 to 2022 that was performed by the Arrowhead Center of New Mexico State University. Commissioner Carlson discussed the big changes experienced by Eddy County due to the oil and gas boom and the lack of government revenue needed to provide extra services to the area. Dr. Winingham discussed the study results, which found that per capita tax contributions from Lea and Eddy counties greatly exceeded the state-level expenditures to those counties. Jason Burns, public works projects director, Eddy County, discussed the significant population fluctuation from day to day in Eddy and Lea counties due to itinerant worker movements. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=11/20/2023&ItemNumber=9>.

Impact of Destination-Based Sourcing on Certain Local Governments (10:27 a.m.)

Sam Cobb, mayor, City of Hobbs; Toby Spears, finance director, City of Hobbs; and Representative Scott discussed some of the changes made in 2021 to switch to destination-based sourcing for the GRT. Mayor Cobb discussed how the city is losing revenue because businesses located in Hobbs are not supposed to be charging the Hobbs GRT rate for services performed outside of the city. Mr. Spears gave details on revenue losses that the City of Hobbs experienced after the sourcing rules changed. Representative Scott discussed a proposed solution to the problem, which was introduced as House Bill 440 in the 2023 legislative session. The

legislation would set up a new fund consisting of a portion of state GRT revenues. Money in the fund would be distributed monthly to all municipalities and counties, based on a formula that would distribute a greater share to those municipalities and counties with larger tax bases. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=11/20/2023&ItemNumber=10>.

Proposal to Study Distributions of Local Option Tax Revenues from National Laboratories to Regional Areas (11:18 a.m.)

Representative Joseph Sanchez discussed a proposal to study how to distribute tax revenues generated by Los Alamos National Laboratory to regional communities surrounding Los Alamos. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=11/20/2023&ItemNumber=11>.

Public Comment (12:11 p.m.)

A list of individuals making public comment is available in the meeting file.

Adjournment

There being no further business before the committee, the meeting adjourned at 12:28 p.m.