



EDD

ECONOMIC DEVELOPMENT DEPARTMENT

Annual Economic Development Incentives Update
Presented to the Revenue Stabilization & Tax Policy Committee
November 20, 2023

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www.EDD.NewMexico.gov

Incentives Covered



- Investment Tax Credit
- Local Economic Development Act GRT Share
- High Wage Jobs Tax Credit
- Rural Jobs Tax Credit
- Locomotive Fuel Tax Deduction

A two-story adobe-style building with a covered porch. The building has a light-colored stucco finish and several windows with dark wood frames. The porch is supported by thick columns and has a decorative tile pattern on the wall to the right. The sky is clear and blue.

OUR MISSION:

Improve the lives of New Mexico families by increasing economic opportunities and providing a place for businesses to thrive.

OUR PHILOSOPHY

- Invest in disruptive research and innovative companies
- Train New Mexicans for 21st Century jobs
- Plan for the next 20 years: targeted growth and economic diversity
- Devote special attention to underserved areas

Investment Tax Credit (ITC)*

Created to provide a favorable tax climate for manufacturers, promoting increased employment in New Mexico.

❖ *Only 8 states tax manufacturing equipment*

How it works:

- ❖ Manufacturers may take a credit against the sum of the gross receipts or compensating tax rates and any municipal or county local option rates multiplied by the value of qualified equipment.
- ❖ The rate of 5.125% is used when the qualified equipment is not subject to the gross receipts tax or compensating tax.

**Administered by the Taxation & Revenue Department*



Qualified Equipment for ITC

Qualified equipment includes equipment not previously used in New Mexico and not previously approved for a NM tax credit, and is to be incorporated within one year into a manufacturing operation, and owned by:

- ❖ Taxpayer
- ❖ United States or an agency or instrumentality thereof the state or a political subdivision thereof and leased or subleased to the taxpayer

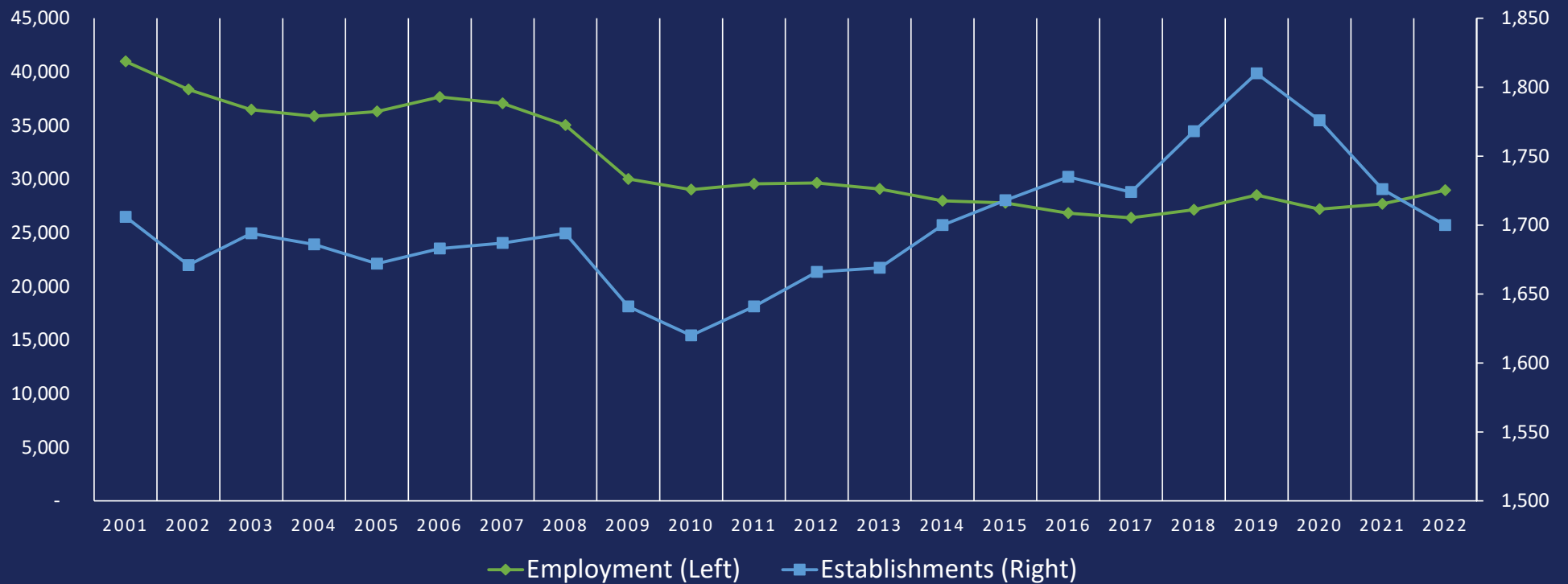
Taxpayer Eligibility for ITC

- ❖ Taxpayer shall employ the equivalent of one full-time employee who has not been counted to meet this employment requirement for a previous claim:
 - ❖ For every \$750,000 of equipment, 1 FTE must be added up to \$30 million in investment
 - ❖ For amounts exceeding \$30 million, 1 FTE must be added for each \$1 million in investment
- Credit must be applied for within one year following the end of the calendar year in which the qualified equipment for the manufacturing operation is purchased or introduced into New Mexico

Manufacturing Employment & Establishments



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Source: US Bureau of Labor Statistics

LEDA GRT Share

The Local Economic Development Act, or LEDA, is a discretionary tool administered by the Executive Branch.

LEDA facilitates both recruitment and job creating expansions of existing companies.

Provides a reimbursement for costs associated with land, building improvements, and infrastructure.

LEDA investment is tied to job creation, key development, and performance milestones.

The full amount of the LEDA award is collateralized and spelled out specifically, including clawback provisions, through a PPA with the company and an IGA between the state and local government.



LEDA Gross Receipts Tax (GRT) Sharing

- ❖ Only applied to projects with \$350M+ in construction costs
 - ❖ This amount applies to construction only and does not include other capital investments.
- ❖ All taxing authorities must agree to the GRT share based upon the location
- ❖ GRT share is 50% of the GRT collected
 - ❖ Only General Funds are impacted
 - ❖ City or county GRT that is dedicated to a specific purpose or pledged for financing are not subject to the agreements.
 - ❖ The funds are collected by TRD and verified to be part of the project before they are distributed back to the LEDA fund for disbursement.



GRT Share Example (Project Size = \$400M)

STATE OF NEW MEXICO	
GRT Share Rate:	3.775%
GRT Share:	50%
GRT Share Collected:	\$7,550,000

VILLAGE OF LOS LUNAS	
Village GRT Rate	3.4%
GRT Share	50%
GRT Share Collected	\$6,800,000

VALENCIA COUNTY	
County wide rate (General Fund)	0.9375%
Health Care	0.0625%
Emergency Communications	0.25%
Regional Transit	0.125%
County Total	1.375%
GRT Share	50%
GRT Share Collected:	\$1,875,000

STATE COLLECTED	\$15,100,000
GRT money in LEDA Fund	\$7,550,000
State General Fund	\$7,550,000
COUNTY COLLECTED	\$5,500,000
GRT money in LEDA Fund	\$1,875,000
County General Fund	\$1,875,000
CITY COLLECTED	\$13,600,000
GRT money in LEDA Fund	\$6,800,000
City General Fund	\$6,800,000

High Wage Jobs Tax Credit (HWJTC*)

- ❖ Originally enacted in 2004
- ❖ Provides an incentive for businesses to create and fill new jobs in New Mexico
- ❖ Credit may be taken for each new high-wage economic base job and is equal to 8.5% of the wages

Qualified employers are those eligible for JTIP

- ❖ Credit may be taken for up to 4 years
- ❖ Applied to the state portion of gross receipts, compensating, and withholding taxes
- ❖ The credit is capped at \$12,750 per year, per job

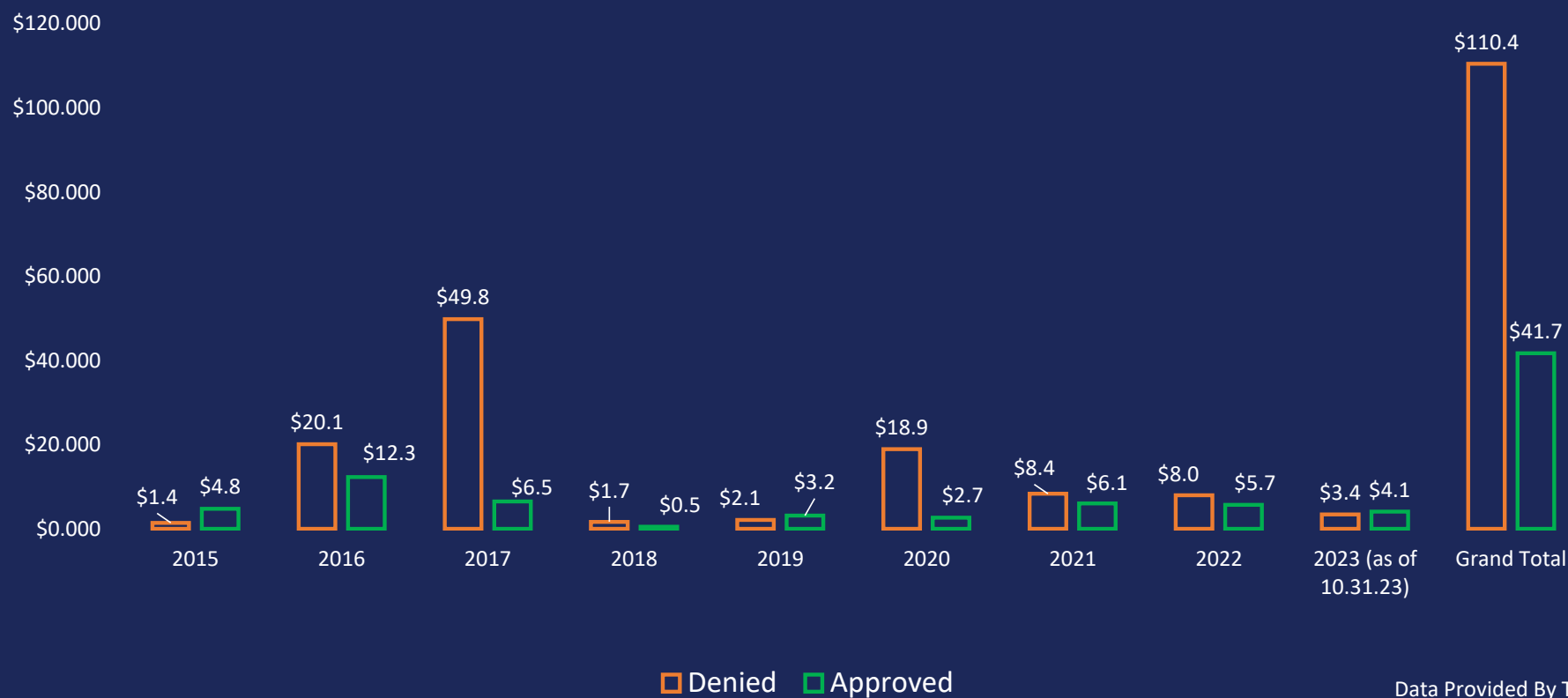
**Administered by the Taxation & Revenue Department*

HWJTC Qualified Jobs

- ❖ Pay at least \$40,000 per year in a community with a population of less than 60,000
- ❖ Pay at least \$60,000 per year in a community with a population of 60,000 or more:
 - ❖ Albuquerque
 - ❖ Las Cruces
 - ❖ Rio Rancho
 - ❖ Santa Fe
- ❖ Must be occupied by employee for at least 44 weeks by the employee

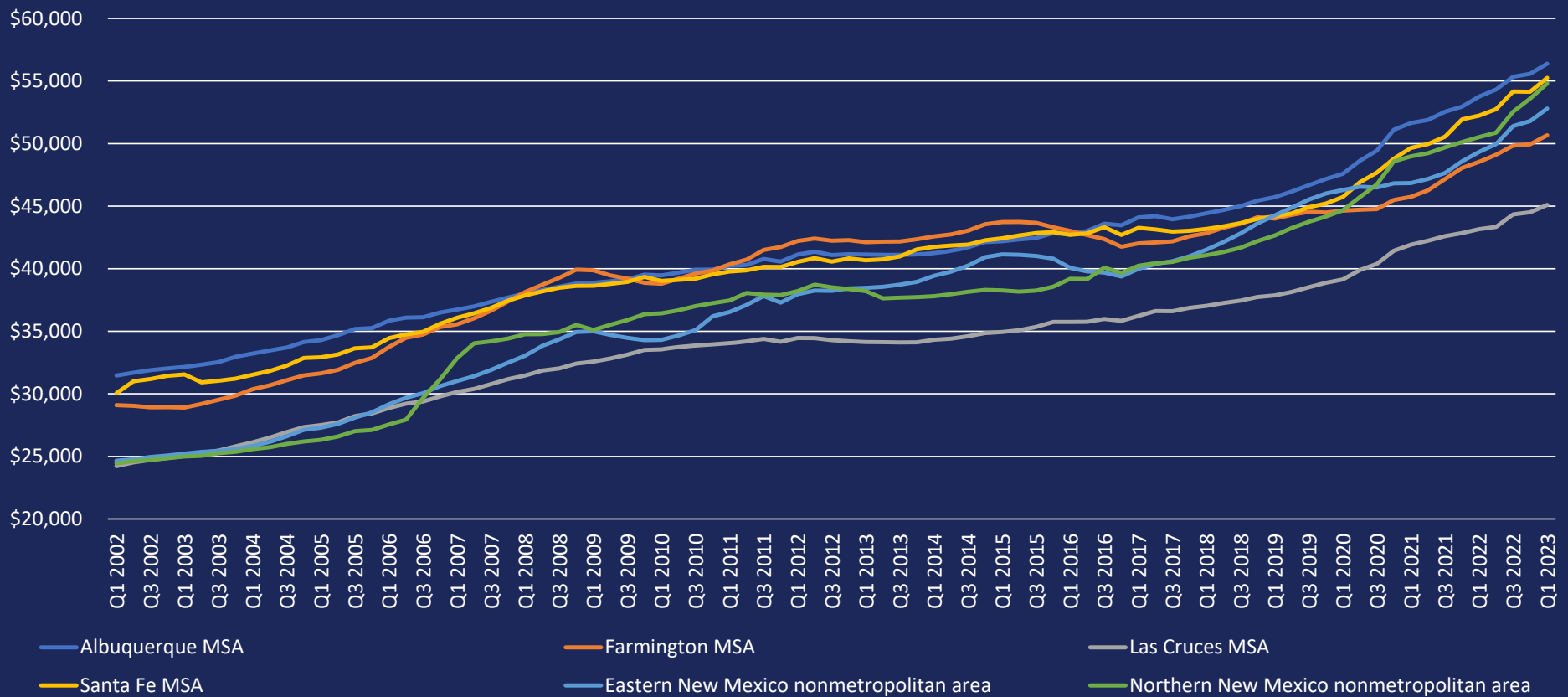


HWJTC Claims Approved vs. Denied (in millions)





Annual Wages in New Mexico



Source: JobsEQ®

Rural Jobs Tax Credit (RJTC)*

- ❖ Originally enacted in 2007
- ❖ Amended in 2013 & 2021 to clarify the definitions of qualifying jobs and wages, and expand the intended purpose
- ❖ Encourages businesses to grow in rural areas of the state

Qualified employers are those eligible for JTIP

- ❖ Credit can be applied to PIT or CIT
 - ❖ NOT GRT or compensating tax
- ❖ Any unclaimed balance may be carried forward for 3 years

**Administered by the Taxation & Revenue Department*

RJTC Specifics



Rural New Mexico is defined as any part of the state other than:

- ❖ Albuquerque
- ❖ Farmington
- ❖ Las Cruces
- ❖ Los Alamos County
- ❖ Roswell
- ❖ Santa Fe
- ❖ And a 10-mile zone around these cities

Rural areas are divided into two tiers:

Tier 2 = Nonmetro municipalities that exceed 15,000 in population:

- ❖ Alamogordo
- ❖ Carlsbad
- ❖ Clovis
- ❖ Gallup
- ❖ Hobs
- ❖ Los Lunas
- ❖ Sunland Park

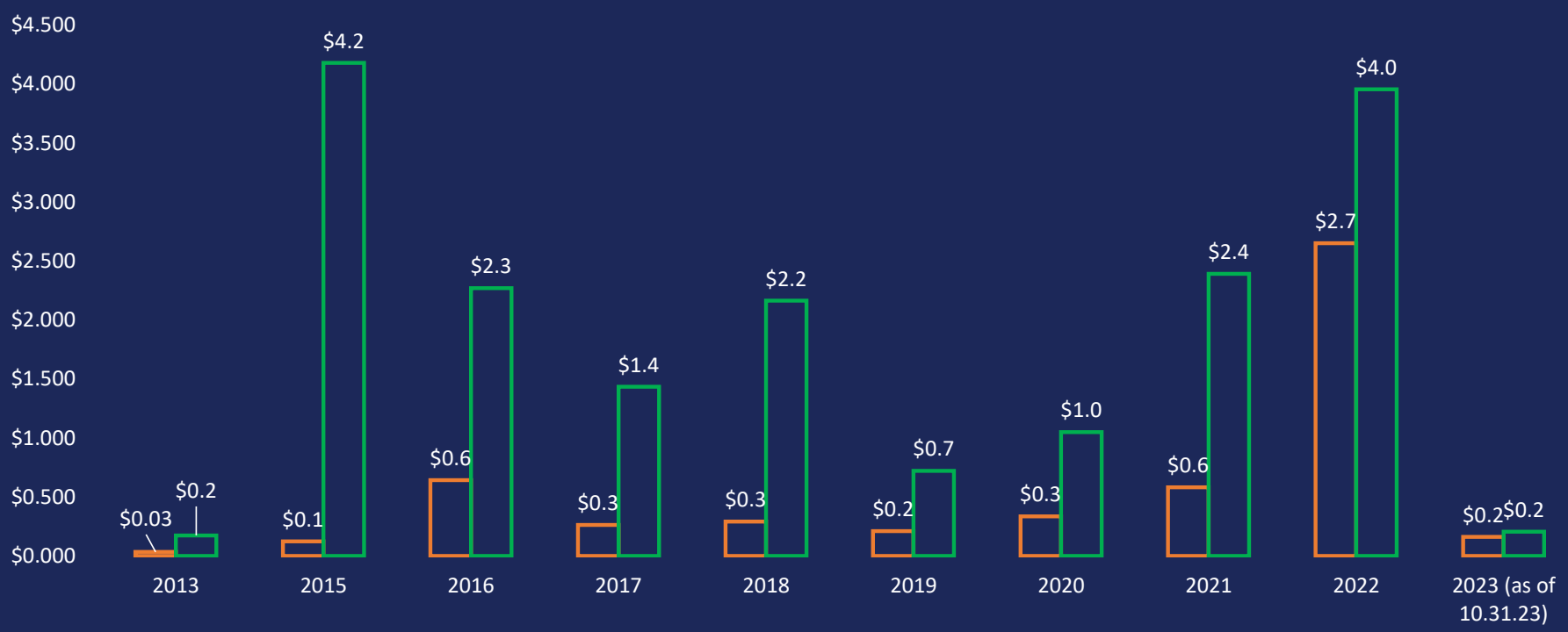
Tier 1 = Everywhere else in a rural area

The maximum tax credit amount with respect to each qualifying job is equal to:

- ❖ **Tier 1:** \$1,000 per year for 4 years
- ❖ **Tier 2:** \$1,000 per year for 2 years



RJTC Claims Approved vs. Denied (in millions)

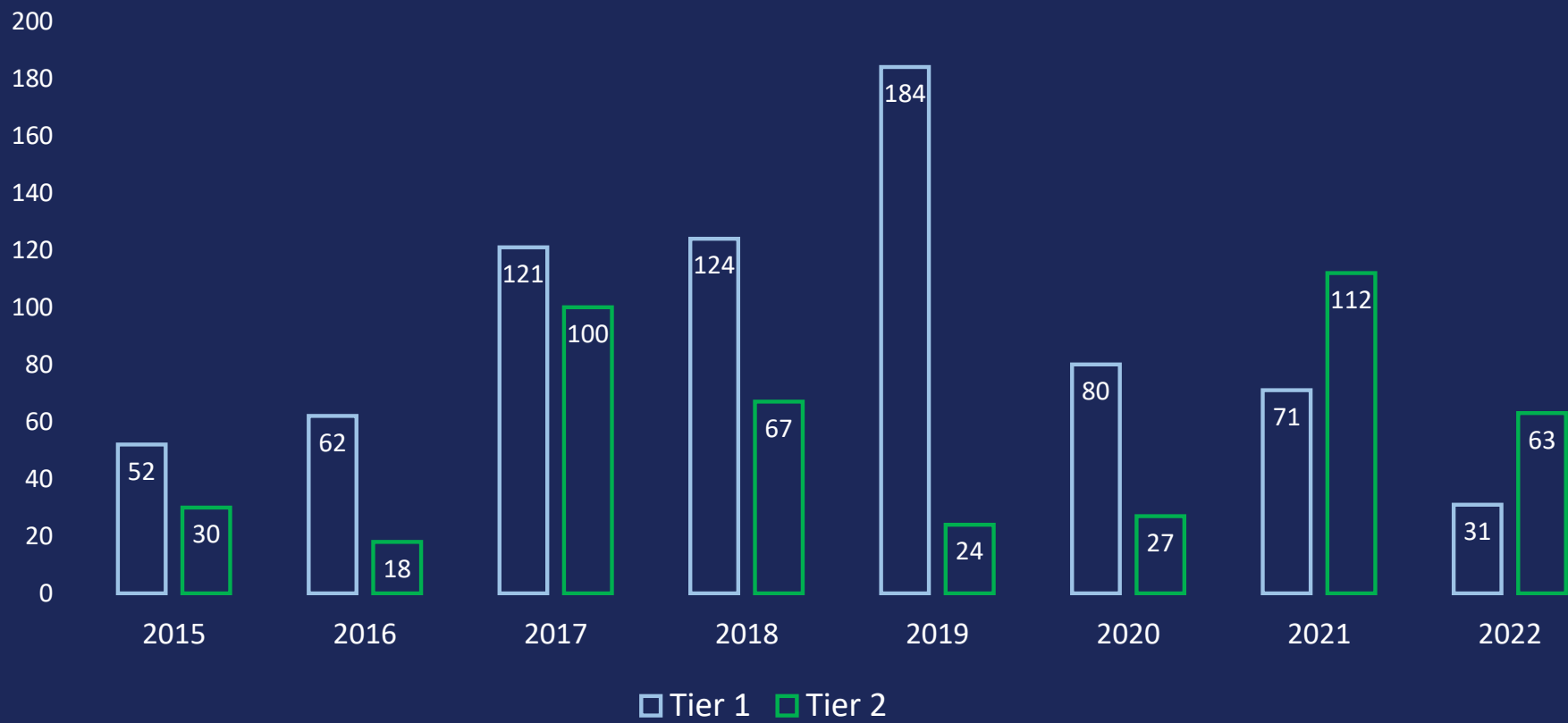


Denied Approved

Data Provided by TRD



Rural Jobs Tax Credit Claims Approved by Tier





Locomotive Fuel Tax

- ❖ Originally enacted in 2011
- ❖ Encourages “the construction, renovation, maintenance, and operation of railroad locomotive refueling facilities and other railroad capital investments in New Mexico”
- ❖ Two key dates to be eligible for the deductions:
 - ❖ A capital investment of \$100 million or more in new construction or renovation at the railroad locomotive refueling facility where the fuel is loaded or used after July 1, 2011, or
 - ❖ Make a capital investment of \$50 million or more in new railroad infrastructure improvements, including railroad facilities, track signals, and supporting railroad network, located in NM on or after July 1, 2012
 - ❖ New railroad infrastructure improvements cannot be required by a regulatory agency to correct problems such as regular maintenance specifically identified by that agency as requiring necessary corrective action

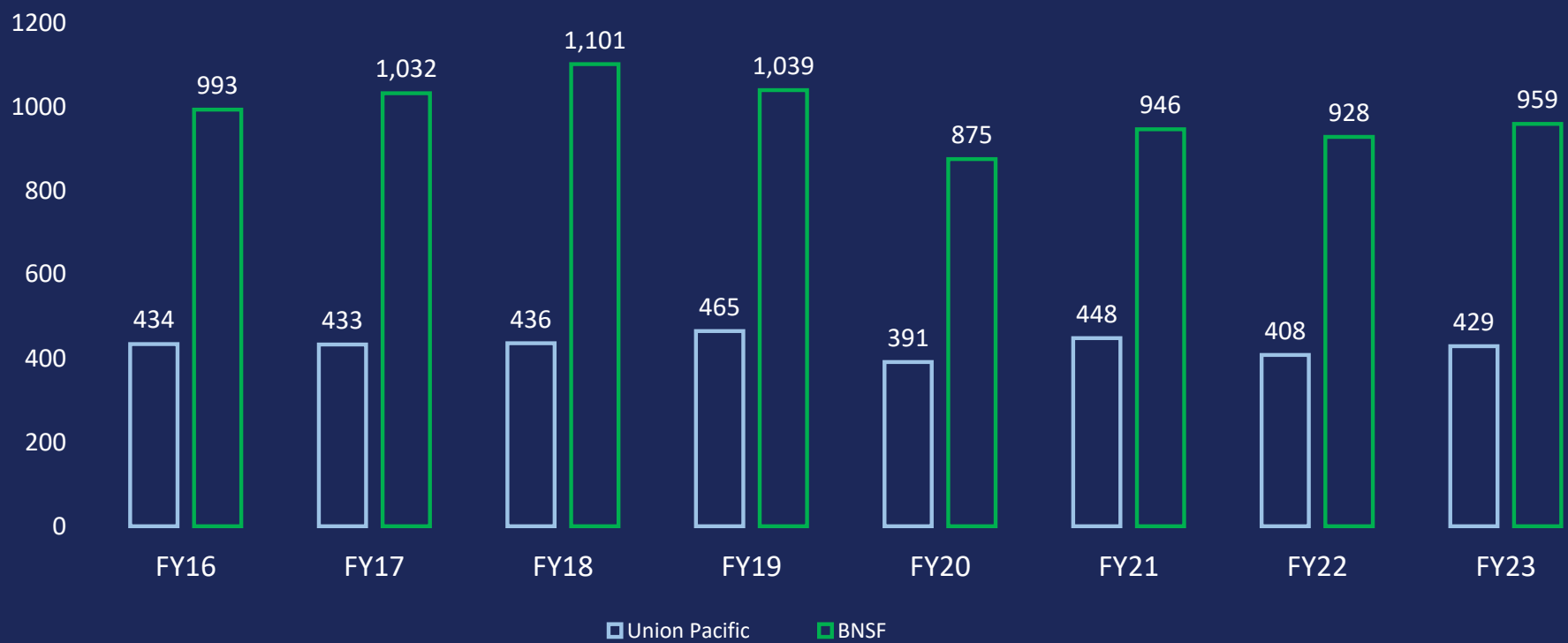
Annual Reporting & Statutory Language



- ❖ Beginning in 2019, the legislation requires an effectiveness study every 6 years
- ❖ EDD & TRD estimate the amount of state revenue that is attributable to all railroad activity related to the deduction
- ❖ The information included is self-reported
- ❖ Receipts from the sale of fuel to a common carrier to be loaded or used in a locomotive engine are deductible from gross receipts.
(7-9-110.1 NMSA 1978)
- ❖ The value of fuel to be loaded or used by a common carrier in a locomotive engine is deductible when computing the compensating tax due.
(7-9-110.2 NMSA 1978)



Jobs by Company



Compensating and GRT Relief

	Union Pacific				BNSF			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
Compensating Tax	\$8,100,000	\$11,500,000	\$13,100,000	\$16,900,000	\$2,204,007	\$1,384,580	\$3,420,585	\$9,500,000
Gross Receipts Tax	0	0	0	0	\$4,938,442	\$4,474,383	\$9,688,042	\$6,200,000
TOTAL	\$8,100,000	\$11,500,000	\$13,100,000	\$16,900,000	\$7,142,449	\$6,158,963	\$13,108,627	\$15,700,000

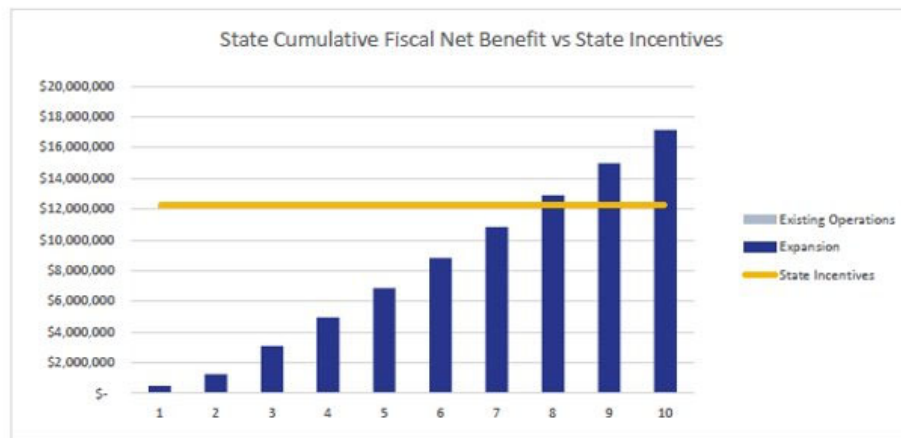
	FY20	FY21	FY22	FY23
Estimated Total Incentive Per Job	\$12,040	\$12,668	\$19,617	\$23,487
Estimated BNSF Total Incentive Per Job	\$8,163	\$6,511	\$14,126	\$16,371
Estimated UP Total Incentive Per Job*	\$20,716	\$25,670	\$32,108	\$39,394

*Includes all jobs

Economic Impact Analysis Model

- ❖ Built and tailored an EIA model specific to New Mexico
 - ❖ 10-year time horizon
 - ❖ Includes 160 different locations
 - ❖ Compares estimated revenues to costs and incentives

Economic Impact Analysis Model Cont.



Incentives

Total State Incentive:	\$	12,268,929
State Incentive Per Job:	\$	36,085

Combined Payback and Return

State Payback Period Combined:	7.69	Years
State Rate of Return Combined:	9%	

Expansion Only Payback and Return

State Payback Period Expansion:	7.69	Years
State Rate of Return Expansion:	9%	

❖ The 10 Year Time Horizon Includes:

- ❖ Industrial Revenue Bonds
- ❖ Total Economic Output
- ❖ Personal Income Taxes
- ❖ Gross Receipts Taxes
 - ❖ Construction
 - ❖ Workers
 - ❖ Companies
- ❖ Corporate Income Taxes
- ❖ Property Taxes

Economic Impact Analysis Model Cont.



- ❖ The model includes 160 locations:
 - ❖ Built in costs and revenues per worker per specific location (marginal costs and marginal revenues)
 - ❖ Used actual costs and revenues from DFA's Local Government Division
- ❖ RIMS II Multipliers-Bureau of Economic Analysis (BEA)
 - ❖ For the State, County by NAICs Code
- ❖ Updated Annually/Semi Annually with:
 - ❖ GRT Rates
 - ❖ Property Tax Rates

Fiscal Impact of Existing and Expanded Operations Over the Next Ten Years

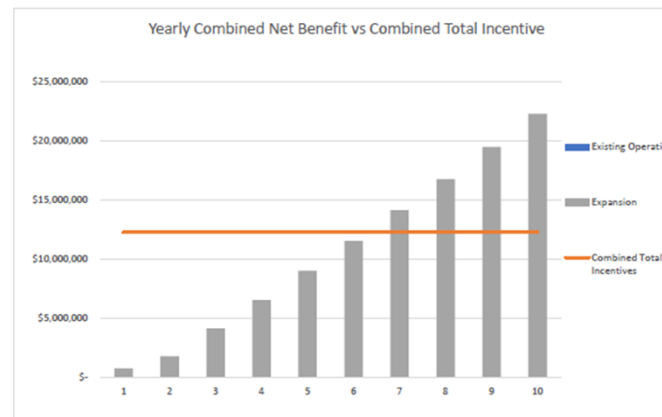
	Cumulative Net Benefits			
	Existing Operations	Expansion	Existing & Expanded Operations	Present Value of Net Benefits*
State of New Mexico	\$ -	\$ 17,147,477	\$ 17,147,477	\$ 13,380,516
County	\$ -	\$ 431,257	\$ 431,257	\$ 338,391
City	\$ -	\$ 4,698,597	\$ 4,698,597	\$ 3,689,249
School District	\$ -	\$ -	\$ -	\$ -
Special Taxing District	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ 22,277,331	\$ 22,277,331	\$ 17,408,157

* The Present Value of Net Benefits expresses the future stream of net benefits received over several years as a single value in today's dollars. Today's dollar and a dollar to be received at differing times in the future are not comparable because of the time value of money. The time value of money is the interest rate or each taxing entity's discount rate. This analysis uses a discount rate of 5% to make the dollars comparable.

** In the cumulative net benefits of the existing and expanded operations for the State of New Mexico, corporate income tax has been removed from the existing operations total to avoid double counting.

Total Public Net Benefit

	Total
Estimated Total Public Net Benefit Over 10 Years:	\$ 22,277,331
Combined Total Incentive Over 10 Years:	\$ 12,268,929
Total Public Net Benefit Rate of Return:	82%





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