



Report Methodology

Tax Expenditure Assessments summarize analysis of tax expenditures. Each analysis employs a New Mexico-specific version of the Regional Economic Models, Inc. (REMI) Tax-PI version 3.2.1 model to perform an impact analysis of tax expenditures. The Tax-PI model is calibrated with state revenue and expenditure data along with data on New Mexico industrial composition. The model combines different contemporary regional economic modeling methods such as input-output analysis and econometric modeling to characterize the mechanics and path of a regional economy. The model has been extensively peer-reviewed and is widely used elsewhere in the nation to model economic and tax revenue impacts of tax expenditures, including economic development tax expenditures. The model used for this analysis was customized for New Mexico and includes 70 industry sectors.

The analysis reflects structural simulations of the economic and fiscal effects of changes in firm production costs provided by the state through tax exemptions, deductions, or credits. This report employs publicly available administrative data from the Taxation and Revenue Department (TRD) from 2012 to 2024 on the actual total expenditures, claims, and other relevant administrative data. The report also uses state revenue data from the Department of Finance and Administration and analyzes data from the U.S. Bureau of Labor Statistics and Bureau of Economic Analysis. Outcome variables examined include total employment, state gross domestic product (GDP), personal income, and sources of major state revenue. These are reported as the change in average annual increase over a 20-year simulation period compared with the baseline scenario.

For maximum specificity, the analysis links tax expenditures to industries to best capture the collective economic impacts of each tax expenditure. The economic impact of different types of tax expenditures across industries impacted by the selected programs is modeled to encompass all the potential gains from a selected tax incentive for the selected period. This allows for a broader economic return on investment measure and an estimated return in revenue the state receives.

The report calculates the estimated economic return on investment (ROI) from each expenditure to the New Mexico economy over 20 years. Specifically, ROI is calculated as the increase in state GDP because of the growth in consumption expenditures, private investment, government expenditures, and net exports after accounting for the costs of the expenditure. The value is calculated by subtracting the expenditure's total cost from the increase in state GDP and dividing that value by the expenditure's total cost, as follows:

$$\text{Economic ROI} = \frac{(\text{Increased GDP} - \text{Total Cost})}{\text{Total Cost}} \times 100\%$$

The economic ROI value can be interpreted as the growth in the New Mexico economy that results from the state's investment in a tax expenditure. For example, and economic ROI of 90% means that for every \$1 spent on a tax expenditure, the New Mexico economy increased by 90 cents.

Similarly, the report estimates the return in revenue measured by the state's return in revenue. Specifically, the return in revenue is calculated as the growth in state revenue after accounting for the costs of the expenditure. The value can be expressed as a percentage or a ratio that is calculated by subtracting the expenditure's total cost from the increase in state revenue and dividing that value by the expenditure's total cost.

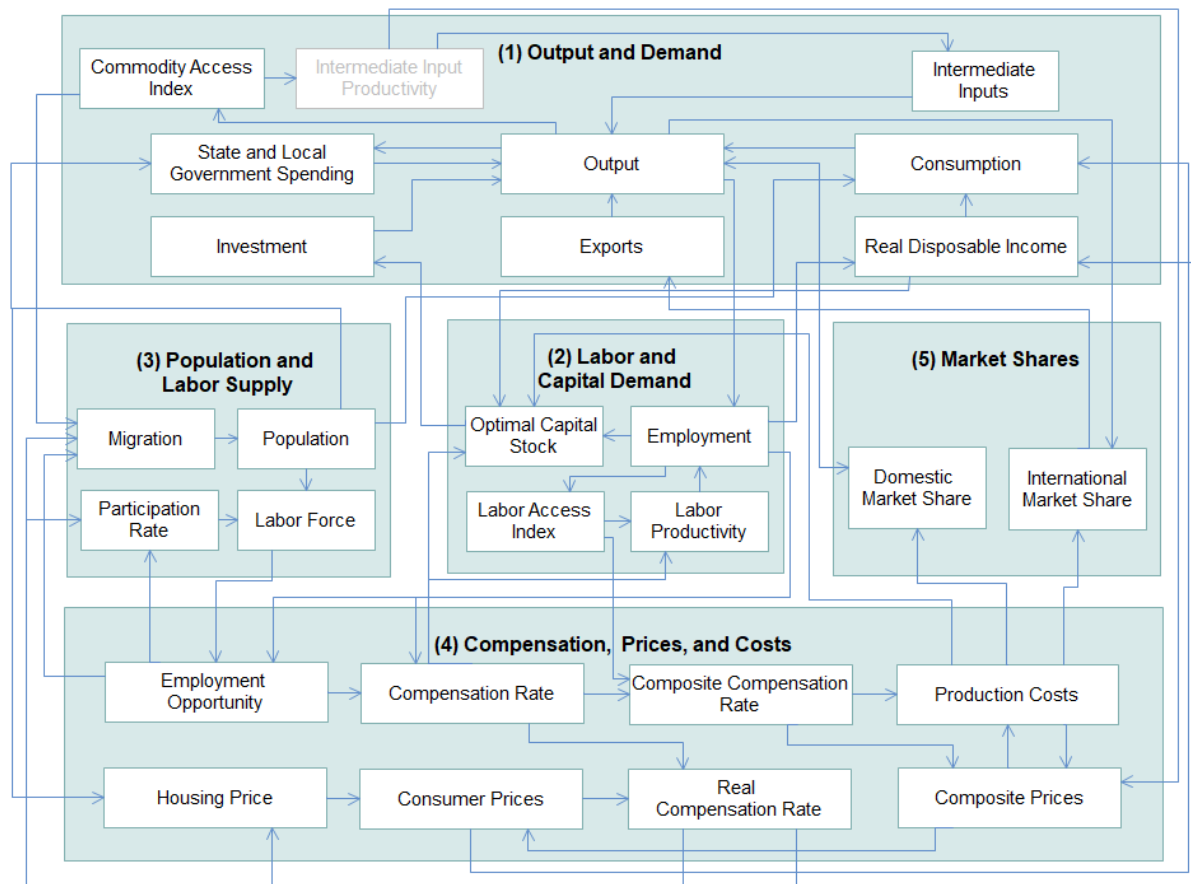
$$\text{Return in Revenue} = \frac{(\text{Increased Tax Revenue} - \text{Total Cost})}{\text{Total Cost}} \times 100\%$$

The return in revenue value can be interpreted as the growth in New Mexico revenue that results from the state's investment in a tax expenditure. For example, a return in revenue of -25% can be interpreted to mean that for every \$1 spent on a tax expenditure, New Mexico state revenues decrease by 25 cents. Typically, this value is expressed as the return per \$1 spent. In this example, the finding may be interpreted as for each \$1 spent on a tax expenditure, the state recoups 75 cents.

Model Overview

The REMI Tax-PI model relies on many equations that act to simulate shocks to a baseline economic forecast. How these equations are used depends on the industrial, demographic, demand, and other details in the model, but can be represented by five major blocks as outlined in the below figure.

Figure 1. REMI Model Linkages



Design Elements

In addition to fiscal and economic impacts, each expenditure is assessed based on a set of criteria. Criteria were set using the committee-adopted tax policy principles and tax expenditure policy principles and national best practices. The elements are outlined in the following figure.

Figure 2. Sample Tax Expenditure Assessment Summary Table

FY24 Tax Expenditure	\$5M
FY24 Number of Claims	100
Jobs Created	200
Economic ROI	50%
Return in Revenue	-50%
Usage Trends	
1-Year Change	+10%
3-Year Average Change	-15%
Meets Purpose	●
Design	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	●
Targets export-based industry	●
Data Availability <i>Are requirements being met?</i>	○
Data Reliability <i>Is data reported separately?</i>	●

Expenditure and claims amounts are reported by TRD. Employment, economic ROI, and return in revenue is estimated using the methodology described above. Usage trends are calculated using TRD data. Design elements are assessed individually. Data availability refers to minimum statutory requirements. Data reliability is a measure reported by TRD based on the method used to estimate the cost of an expenditure, which can sometimes be unreliable because of a lack of taxpayer data.