F I S C A L   I M P A C T   R E P O R T

SPONSOR Moore **DATE TYPED** 01/27/05 **HB** 42

SHORT TITLE WIND ENERGY GENERATION GROSS RECEIPTS **SB**

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	**FY06**			
	($60.0)	Increasing	Recurring	General Fund
	($10.0)	Increasing	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Energy, Minerals & Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

House Bill 42 expands the eligibility for the gross receipts tax deduction on wind energy generation equipment. Under current law, the tax deduction requires the deductible receipts of sales of wind generation nacelles, rotors, or related equipment to be sold to "the United States or New Mexico or any governmental unit or subdivision, agency, department or instrumentality thereof". The new bill strikes this clause allowing the sales to be to any third party.

The effective data of the provisions of this act is July 1, 2005.

FISCAL IMPLICATIONS

TRD's fiscal impact analysis estimates that this bill would reduce gross receipts tax revenues by about $70 thousand in FY06. $60 thousand of the estimated revenue loss would be absorbed by the state; the remaining $10 thousand would impact local governments. The estimate assumes 1,000 kW of qualified wind electric generating equipment being installed annually at an average cost of about $1,000 per kW. Multiplying 1,000 kW of qualified equipment by the average $1,000.0 cost implies that about $1 million would eligible for the expanded deduction. Applying a 7 percent gross receipts tax rate against the $1 million base implies a $70 thousand revenue loss. TRD assumes that most of these projects will be placed in rural areas, so the state would absorb a large share of the revenue loss.

TRD notes that although there are currently only a small number of eligible facilities under development, the Public Regulation Commission ("PRC") has recently ordered the state's utilities to significantly increase the share of renewable energy in their total sources of supply to New Mexico consumers. Thus, revenue impacts of the proposal will probably increase as new wind facilities are developed to meet the PRC requirements.

ADMINISTRATIVE IMPLICATIONS

Necessary revisions to forms and systems could be done at minimum cost within the normal replacement cycle, according to TRD.

OTHER SUBSTANTIVE ISSUES

According to EMNRD, House Bill 42 supports further development of wind energy in New Mexico. Promotion, planning, and implementation of renewable energy programs, including wind, are key components of the Strategic Plan of EMNRD's Energy Conservation and Management Division

EMNRD reports that this bill would aid development of the wind power industry in New Mexico, with particular economic benefit to rural communities. However, the existing tax deduction essentially is available only to projects that utilize Industrial Revenue Bond (IRB) financing. Removing this limitation in the current statute would simplify the financing structure of wind power projects in New Mexico, thus encouraging and accelerating development, and making the state more competitive relative to other windy states.

OPJ/yr