



LFC Newsletter

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From the Chairwoman **Exponential ROI**

Much of the media coverage on the federal infrastructure act has focused on the price tag—more than \$1 trillion—but the return on that investment will be exponential. Moody's Analytics projects the spending will trigger the creation of 1.5 million jobs a year nationally for the next 10 years. But the payoff on this investment will last generations, not just a decade.

Notably for New Mexico, the act includes billions for universal access to high speed internet; improvements to roads, bridges, and ports of entry; expansion of passenger rail and other public transit; and water projects on tribal lands and in disadvantaged communities with the goal of ensuring every community has access to safe water. These investments will be life-changing for many in New Mexico and open the door to economic opportunities that have never existed, particularly in rural areas.

In addition to the estimated \$3.7 billion New Mexico is slated to get through non-competitive grants, our state will also be eligible for competitive-based funds, like the \$8 billion in the Infrastructure Investment and Jobs Act for the development of four hydrogen hubs in different regions of the country.

New Mexico has already started on the path to becoming a hydrogen hub through the Escalante H2 Power facility, the retrofit of a power plant from coal-fired to hydrogen burning, and a joint venture of Farmington and Albuquerque companies using technology developed by Sandia National Laboratories that uses steam to reform the methane in natural gas into hydrogen.

Northwest New Mexico, which has suffered through the decline of the coal market and a struggling natural gas sector, is well positioned to be a center of excellence in hydrogen development and production. It has the infrastructure in place, a college that could train the workforce, and is already studying carbon sequestration—carbon dioxide is a by-product of methane-based hydrogen production—near the San Juan Generating Station.

Additionally, the committee is considering endorsing hydrogen hub legislation, and the governor has announced a proposed Hydrogen Hub Act will be her top priority during the upcoming 30-day session.

New Mexico has long been involved in energy production. Indeed, the oil and gas sector has been a boon for the state, but as the world transitions from fossil fuels, New Mexico risks watching the industry burn itself out with nothing to replace it.

Environmentalists and others have raised concerns—while hydrogen burns clean, production requires electricity, still mostly produced through fossil fuels—and there are still a lot of details to work out, but hydrogen appears to be a strong, sound, forward-thinking investment for New Mexico that comes with federal support and the potential for exponential returns.

Representative Patty Lundstrom
Chairwoman

NM Tax Climate Overall Average for Business

New Mexico's overall tax climate scores in the middle of states for its suitability for spurring economic growth, with New Mexico coming in as best for property taxes but among the worst for sales taxes, according to a taxation policy think tank.

In a [brief on New Mexico tax policy](#) presented to the committee in July, LFC staff says the Tax Foundation in its *2021 State Business Tax Climate Index* ranks New Mexico 23rd for overall tax climate, but 41st for sales taxes—essentially the gross receipts tax.

Based on 120 variables in five major areas of taxation, the right-leaning foundation ranked the state best among all states for its property tax climate and in the top 10 for corporate income and unemployment insurances taxes.

The foundation ranked New Mexico 31st for personal income taxes.

“High marginal tax rates can discourage work, saving, investment, and innovation,” staff says in the brief. “But low taxes can also slow long-run economic growth by reducing resources to provide critical government services, increasing government borrowing, and decreasing public infrastructure investments.”

Infrastructure Share Estimated at \$3.7B

The new \$1 trillion federal infrastructure legislation will send an estimated \$3.7 billion to New Mexico over approximately five years, LFC staff report.

In the [November federal stimulus funds update](#), staff say the state will receive funds for road construction, public transportation, broadband, the electric grid, cybersecurity, and water systems through the Infrastructure Investment and Jobs Act.

The \$3.7 billion, an estimate that could change as more details about the act emerge, will be distributed through set formulas. The bill also provides for additional funding that will be distributed through competitive grants.

The estimated benefits to the state:

Roads, bridges and major projects: The largest share will be federal aid for highways, roughly \$500 million a year for five years and a 25 percent increase in federal funds for highways. The nine different grant programs in the act have

The Tax Policy Center, a nonpartisan tax research organization, concludes the size and skill of the workforce, infrastructure quality, and “overall stock of knowledge and ideas” have a greater influence on economic development than tax policy, staff reports.

The brief notes legislators have implemented a number of tax reform initiatives over the past three years, including broadening the gross receipts tax base by taxing previously untaxed goods and services, which would allow for a lower overall rate.

However, while the state GRT rate has remained fairly stable, local governments have raised their rates, driving up the total. The state GRT rate is 32nd among states but the combined rate is 15th highest, staff says.

Businesses are particularly impacted by GRT “pyramiding,” the taxation of business-to-business transactions that creates an extra layer of taxation at each stage of production.

Lawmakers have adopted anti-pyramiding provisions for many goods, but services are still largely taxed. This can hit smaller business particularly hard because they often contract for services.

different state fund matching requirements, but federal funds will cover the majority of program costs, ranging from 80 percent to 100 percent.

Public transit: New Mexico will receive up to \$372 million for urban and rural area projects, enhanced mobility, and buses and bus facilities.

Broadband: In addition to \$100 million in grants to the state for broadband infrastructure, 785 thousand New Mexicans will be eligible for a benefit that helps pay for internet connections.

Power infrastructure: New Mexico will receive an estimated \$38 million for energy efficiency projects, some of which must be used for loans and grants to businesses and homeowners. The Weatherization Assistance Program would see an over 1,000 percent increase in funding with nearly \$30 million to help low-income New Mexicans reduce their energy bills by increasing the energy efficiency in their homes.

Violent Crime Rates Up but Case Closures Down

Falling violent crime case clearance rates—the rate at which crimes are closed, generally through arrest—suggest the state is failing to create the certainty of arrest that research shows is a significant deterrent to crime, LFC analysis suggests.

In the forthcoming 2022 *Legislating for Results: Policy and Performance Analysis*, the first volume of the committee’s annual report and budget recommendation to the full Legislature, staff reports the state’s violent crime rate rose 30 percent between 2014 and 2020, while the number of cases cleared fell 25 percent.

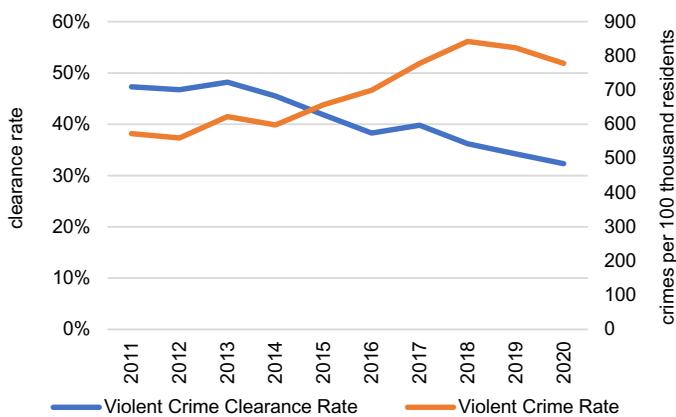
In Albuquerque, the police department reported a 167 percent rise in homicides between 2014 and 2020 and a 42 percent reduction in cases cleared.

Research suggests more officers deployed in a way that creates the perception the risk of arrest is high helps deter crime, staff says, but New Mexico has struggled to grow its law enforcement workforce.

During the period of crime growth between 2014 and 2018, the number of law enforcement officers in New Mexico municipal police departments, county sheriffs’ offices, and state police was essentially stagnant.

However, staff notes, other studies have found more police officers can increase the number of arrests for low-level crime, increasing the risk of unnecessary use of force. Staff reports this can harm a community’s faith in law enforcement.

New Mexico Violent Crime Rate vs. Violent Crime Clearance Rate



Source: FBI, LFC files

On the Table

More Settlement Challenges Expected

New Mexico should expect more legal challenges from the tobacco companies that pay the state millions each year under a 1998 settlement agreement. The annual payments, intended to offset smoking-related healthcare costs to the state, were reduced in 2014 after the companies successfully argued New Mexico had failed, in 2003, to diligently enforce market fairness provisions that require smaller tobacco companies outside the settlement to pay money into escrow accounts. Arbitration over 2004 settlement payments is scheduled for February, and a challenge for 2005-2007 is also pending. The state should expect additional challenges for every year up to the present, the Attorney General said.

All Students to Get Access to Devices

CTC Technology and Energy, under contract with the Public Education Department, reports all students in need of electronic devices, an estimated 131,021 students, should have access by the end of the month after a second round of federal emergency connectivity fund grants are distributed to school districts. The company says the new grants will allow 15,576 students to be newly connected, barring any issue with purchase and delivery; 5,641 students will still lack internet access. The remaining unconnected students are primarily in the Albuquerque, Gallup-McKinley County, and Grants-Cibola County school districts, possibly because of a lack of infrastructure or a high number of unhoused students. The company said it plans to work directly with the districts on outstanding needs.

Job Count Still Short of Prepandemic Levels

New Mexico as of September had recovered just about half the 100 thousand jobs it lost after the start of the pandemic, according to the Bureau of Business and Economic Research. The bureau reports 44 states have recovered a greater share of jobs than New Mexico, and six states have recovered at least 99 percent of all lost jobs.

Rig Count Slips

Following eight months of rig count growth in New Mexico, the number of rigs in November fell to 81. Prices also fell as oil inventories climbed for the first time in weeks, and a new pandemic shutdown in Austria sparked concerns that demand could drop.

Transitions

Nina Chavez will join LFC staff in December to work on capital outlay analysis. Chavez is a graduate of Carnegie Mellon University and Southern Methodist University and has worked for Teach for America in South Texas.

Northern New Mexico College President Rick Bailey is leaving after five years to become president of Southern Oregon University.

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