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

December 4-5, 2006
State Capitol, Santa Fe, New Mexico

The sixth meeting of the Revenue Stabilization and Tax Policy Committee (RSTP) was called to order by Representative Donald L. Whitaker, chair, at 9:00 a.m. at the State Capitol, Santa Fe.

Present
Rep. Donald L. Whitaker, Chair
Sen. John Arthur Smith, Vice Chair
Sen. Ben D. Altamirano
Rep. Janice E. Arnold-Jones
Sen. Mark Boitano
Rep. Anna M. Crook
Rep. Keith J. Gardner
Rep. Roberto "Bobby" J. Gonzales
Rep. Ben Lujan, Speaker of the House
Sen. William E. Sharer
Sen. James G. Taylor
Rep. Thomas C. Taylor

Absent
Sen. Carlos R. Cisneros
Sen. Kent L. Cravens
Sen. Joseph A. Fidel
Rep. George J. Hanosh
Rep. Daniel P. Silva
Sen. H. Diane Snyder

Designees
Sen. Sue Wilson Beffort
Sen. Phil A. Griego
Sen. Nancy Rodriguez
Rep. Henry Kiki Saavedra
Rep. Luciano "Lucky" Varela
Rep. Donald E. Bratton
Sen. John T.L. Grubesic
Rep. Irvin Harrison
Rep. Manuel G. Herrera
Sen. Stuart Ingle
Sen. Gay G. Kernan
Sen. Cisco McSorley
Sen. Steven P. Neville
Rep. Andy Nunez
Sen. Leonard Lee Rawson
Rep. Bill Rehm
Rep. Debbie A. Rodella
Sen. John C. Ryan
Sen. Bernadette M. Sanchez
Rep. Joe M Stell
Rep. Don L. Tripp

Staff
Tim Crawford, Legislative Council Service (LCS)
Cleo Griffith, LCS
Norton Francis, Legislative Finance Committee (LFC)
Pam Ray, LCS
Doug Williams, LCS

Guests

The guest list is in the meeting file.

Copies of all handouts and written testimony are in the meeting file.

<u>Monday, December 4</u>

Tax Expenditure Budgets — Pros and Cons

Dr. Tom Clifford, chief economist, Taxation and Revenue Department (TRD), and Jim Eads, executive director, New Mexico Tax Research Institute (TRI), discussed tax expenditure budgets with the committee.

Although conceptually a valuable tool in reviewing and preparing the state's budget, preparation of a tax expenditure budget presents numerous analytical and procedural challenges. These challenges fall into the following three broad categories.

1. Lack of clarity in defining what constitutes a tax expenditure.
   - The Congressional Budget and Impoundment Control Act of 1974 defines tax expenditures as "revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability".
   - Defining the normal tax structure requires numerous judgments, many of them controversial. Some examples of the difficult issues raised by this process include:
     - Should the tax rate structure be progressive, proportional or regressive?
     - How should appropriate deductions be determined for such expenses as depreciation?
     - What method of accounting should be assumed to be normal?
     - How should operating losses be treated in a normal tax structure?
     - How should provisions be treated that provide less favorable treatment than normal tax law? Is there such a thing as a negative tax expenditure?

2. Lack of accurate information with which to calculate foregone revenue.
   - Since New Mexico "piggybacks" on the federal income tax system, the state has tax expenditures on items of tax preference incorporated in the federal tax code. Although the state does have access to most of the information reported by New Mexico taxpayers on their federal tax returns, there are numerous federal provisions on which no detailed reporting is available.

- Taxpayers do not separately state the value for the different exemptions and deductions they claim under the reporting form for gross receipts, compensating and withholding taxes. Thus, detailed information on most exemptions and deductions is not available. Estimates of the financial impacts of these provisions must be constructed from other information sources.

3. Lack of information and consensus on how to evaluate the effectiveness of tax expenditures.

- Many tax expenditures are designed to mitigate the effects of inequities in the distribution of income or other disadvantages such as physical disabilities. Determining whether the amount of a tax expenditure is sufficient to compensate a disadvantage would rely on subjective judgments that would be almost impossible to compare across individuals.
- Many tax expenditures are designed to alter economic behavior in cases where that behavior has effects on persons other than the actor (so-called "externalities"). Externalities can be positive, as in the case of a development that enhances the value of neighboring properties, or negative, as in the case of a polluting facility that reduces the value of neighboring properties. The problem is that economists have not established reliable estimates of the economic magnitude of most externalities.
- Many tax preferences are intended to increase economic activity in the state by encouraging workers or businesses to locate in the state or to remain here. Evaluating the effectiveness of these policies requires a detailed economic model that accurately captures the effects of tax policies on economic decisions.

Mr. Eads then continued with more information on tax expenditure budgets. A tax expenditure budget consists of an organized list of departures from the "normal" tax structure. The departures, which are designed to favor a particular industry, activity or class of persons, take different forms, such as deductions, deferrals, exclusions, credits or special rates. Basically, the tax expenditure budget is a document that is intended to be a useful source of information that will allow the legislative body to subject indirect "expenditures" of public resources to the same degree of scrutiny as direct expenditures of public funds. The major issue, of course, is the determination of the standard against which these expenditures are measured. The federal experience is not completely helpful insomuch as the federal tax expenditure document does not have to take into consideration the retail and excise taxes that often make up a majority of state revenue flows.

As of 2002, only seven states, Idaho, New York, Ohio, Oregon, Pennsylvania, Tennessee and Wisconsin, actually transmitted the tax expenditure report along with or as a part of the budget document. While the inclusion of the tax expenditure budget in the state budget is an indicator of its importance, its exclusion should be not be construed as a measure of its usefulness. It can be a useful tool in most cases. In all other states, the tax expenditure report was a separate report, even though it may have been a part of the budget debate.

It is obvious from the definition of a "tax expenditure budget" that the heart of the process is determining the norm from which the deviations or "expenditures" are measured. The states tend to use the following three different approaches.

- **Conceptual Baseline.** This is the approach used by the Joint Tax Committee in preparing its estimate of tax expenditures for the federal government. It identifies a benchmark "normal" tax base or "normal income tax law" and measures the deviations from that norm to determine the "expenditures" that exist in the tax law. This approach is said to be less constrained by existing law than the approaches noted below. Idaho, Minnesota and West Virginia are reported to be the states that use this approach.
- **Reference Law Baseline.** This approach measures deviations or "expenditures" based on existing exemptions or exclusions from the tax base, but some are considered "normal" and are part of the base and thus are not counted as "tax expenditures". The U.S. Treasury Department uses a form of this approach as does Connecticut.
- **Revenue Reducer List.** This approach identifies existing reducers of revenue through exemption, exclusion or deduction and quantifies the revenue loss without reference to a "normal" standard. Thus, the costs are identified without any attempt being made to reference them to some standard that may have shaped their enactment. At least one state tax policy organization, the Washington Research Council, has criticized this approach in its state as being a way of overturning what were decent policy decisions at the time of their enactment based on short-term revenue expediency.

In summary, tax expenditure budgets, tax expense reports, tax preference cost reports, or whatever you may call these documents, could be a useful tool to the New Mexico Legislature in determining the long-term impact of existing laws and proposed new laws on the fiscal well-being of the state. Such a report would certainly contribute to the transparency of government. On the other hand, such a list could become a shopping list for raising revenue under difficult conditions that might not allow for sufficient consideration of the underlying policy decisions that caused the "expenditure" to be enacted. A tax expenditure budget is much more than a quantitative analysis. It requires a significant, perhaps even monumental, qualitative examination at its creation that must be continuous if the process is to work properly. Knowledge and principles are the cornerstones of good public policy decisions and should always be at the disposal of policymakers for their wise and beneficial use.

Dynamic Revenue Estimating

Dr. Clifford spoke to the committee about the experience the state now has had with dynamic revenue estimating.

The term "dynamic revenue analysis" has varied meanings depending on the range and scope of the various effects of tax law changes that are being assumed or focused on by a policymaker or revenue estimator. At the one extreme, for example, the term is sometimes viewed relatively narrowly as including the revenue-related effects of only the direct behavioral changes that a tax change causes. At the other extreme, the term can refer to the entire range of revenue effects of a tax change, including the various macroeconomic effects on economic activity that tax changes can produce. Despite that variation in the term's day-to-day usage, tax economists generally subscribe to the latter view and formally define dynamic revenue analyses broadly.

Dynamic revenue analyses takes into account not only the direct behavioral responses that tax changes produce in taxpayers, but also the various indirect behavioral effects they produce in individuals and businesses as well as the induced macroeconomic feedback effects associated with all of the direct and indirect behavioral responses. Thus, for example, for an investment tax credit, a full dynamic analysis would take into account not only the credit's direct effects on the level and nature of investment expenditures, but also the resulting effects on output, productivity, incomes, consumer spending and employment throughout the economy, as well as the feedback effects of those changes on revenue.

The general findings from California's dynamic revenue analyses are as follows:

- the magnitude of effects, generally, as determined from the feedback revenue effects generated by California's model, while definitely present and identifiable, are relatively modest;
- the self-financing capability, as indicated by evidence from the California model, does not show that tax rate reductions generally can pay for themselves, as some parties have in the past claimed;
- specific feedback effects are shown to vary depending on the tax involved and specific tax law changes being considered;
- investment impacts appear to indicate that the long-term feedback effects for broad-based tax rate changes tend to be greatest for the corporate tax due to their effects on investment expenditures and productivity;
- leakage and migration are observed when the partially offsetting dynamic revenue effects from state personal income tax changes are influenced by both the deductibility of state income taxes on federal income tax returns and the high savings propensities of upper-income individuals. For example, some of the benefits to individuals from a state tax rate reduction will not enter the state's spending stream due to the resulting higher federal taxes and personal savings. However, the benefits to economic performance, such as job growth, still can be significant, partly due to the interstate population inflows that will be induced; and
- a model's results are very sensitive to the values used for many of the various elasticities contained in it, especially those regarding such things as population migration and trade flows. Because the true values of those elasticities are often not known with certainty, especially at the state level, educated guesses and assumptions about those values often must be made, and errors in those assumptions can significantly reduce the model's reliability.

Senator Beffort supports creation of a position at TRD to operate the REMI model.

Regulatory Justice

T.J. Trujillo, attorney, Gallagher and Kennedy, PA, spoke on behalf of the Association of Commerce and Industry (ACI) to familiarize the committee members with the concept of regulatory justice as viewed by ACI.

Mr. Trujillo summarized the present regulatory structures by stating that in New Mexico, there are approximately 36 executive departments and independent agencies, 208 boards and commissions and within the New Mexico Administrative Code (NMAC), 22 titles, 384 chapters, and thousands of rules and regulations under each chapter.

The major milestones for broad-based regulatory reform are as follows:

- 1946: federal government enacted the federal Administrative Procedures Act;
- 1957: NM enacted the Uniform Licensing Act;
- 1967: NM enacted the State Rules Act;
- 1969: NM enacted the Administrative Procedures Act;
- 1977: NM enacted the Executive Reorganization Act;
- 1993: NM enacted the Inspection of Public Records Act;
- 1997: NM enacted the Uniform Statute and Rule Construction Act; and
- 2005: NM enacted the Small Business Regulatory Relief Act.

The major problem is that the Administrative Procedures Act does not apply to most agencies, resulting in few uniform regulatory controls that apply to all state agencies. Further, agencies are allowed to establish their own administrative procedures without regard to cross-agency uniformity or consistency. The result is that the regulatory system is complex and not user-friendly. Regulatory reform in New Mexico has been incremental and only focused on particular agencies and topics. New Mexico needs to closely examine the overall procedural framework within which agencies operate; without necessary procedural controls, agencies may either intentionally or inadvertently use their delegated authority to undermine the true intent of the legislative or executive branches of government.

The following problems were identified:

1. a need for:

   - meaningful standards and limitations for rulemaking;
   - a central panel of independent hearing officers and administrative law judges;
   - a party to recover costs and attorney fees where an agency pursues an adjudicatory proceeding without merit;
   - agencies to periodically review all of their rules;
   - agencies to publish their regulatory agendas setting forth anticipated topics;
   - a comprehensive administrative mechanism for a person or business to raise concerns about unnecessary burdens placed on the regulated community, as well as unfair regulatory practices;

- a continuing and formal process to identify and develop solutions to regulatory obstacles and problems; and
- a formal process for agencies to report to legislative interim committees on the current status of affairs in the regulatory system; and

2. a lack of a generally applicable:
    - Administrative Procedures Act;
    - formal process for interested stakeholders to negotiate rules;
    - requirement for all agencies to follow when filing, publishing and distributing agency proceedings;
    - time frame for all agencies to follow when dealing with licenses and permits;
    - set of uniform inspection procedures;
    - standard for setting fees; and
    - requirement to assess economic impacts when promulgating rules.

The current status of regulatory reform is summarized as follows:

- meetings are in progress with officials from Governor's Office;
- legislation is being drafted legislation to either combine some of the original draft bills or model them after uniform legislation;
- legislative sponsors are being identified to work with the Regulatory Justice Group;
- because participation in the regulatory system is a complicated phenomena, the long-term goal is to simplify the regulatory framework, better understand and shape the underlying procedural framework and balance agency discretion with consistency and accountability;
- continue to seek input from all stakeholders; and
- introduce viable legislation during the 2007 legislative session.

Senator Griego observed that public hearings are often scheduled at times that are inconvenient for the public.

Representative Taylor noted that the rulemaking process is arbitrary and makes no sense. He said that one person in the executive branch can thwart the legislative intent.

Representative Crook observed that she has received complaints from constituents regarding the complexity of rules.

Tax Increment Financing (TIF) Update

Mike Daly, CEO, Mesa del Sol, reported to the committee that to date Mesa del Sol has invested $40 million in water, sewer, gas, electric and real estate infrastructure. Mesa del Sol is seeking use of 75% of the gross receipts and property tax collections to finance additional infrastructure. Mr. Daly noted that Mesa del Sol has already attracted Advent Solar (150 employees) and Culver Studios (up to 4,000 employees). When fully built, Mesa del Sol is expected to provide 60,000 jobs.

Mr. Daly stated that "but for" Mesa del Sol's investment, the tax revenue would not be generated and presented the following revenue estimates.

Proposed Mesa Del Sol Tax Increment Financing (All Amounts Are 25-Year Totals Except Where Noted)	
Incremental new property and gross receipts tax	$747,500,000
Proposed amount of the incremental tax to finance Mesa Del Sol	(551,300,000)
Residual amount of new tax for state and local use	196,200,000
Estimated new personal income and gross receipts tax (multiplier effect)	88,000,000
Total new state and local tax over 25 years	480,400,000
Average annual revenue until bonds expire	19,216,000
Additional annual state and local revenue after bonds expire	27,900,000
Total average annual revenue after bonds expire	47,116,000

Senator Taylor asked what the state will lose in tax revenue if a TIF district is created. Mr. Daly stated that he will provide detailed estimates, by business, rather than the aggregates presented in the 25-year illustration.

Senator Taylor advised that Mesa del Sol needs to be a good neighbor to the surrounding communities.

Senator Beffort supports Mr. Daly's "but for" argument.

Senator Smith asked about approval from the City of Albuquerque. Mr. Daly said that Mesa del Sol is meeting with the city on December 4, 2006 and anticipates a vote later in the month.

University of New Mexico (UNM) Health Sciences Center Proposals

Richard Minzner, lobbyist for the UNM Health Sciences Center, presented information on potential legislation that the university plans to introduce in the 2007 session. The City of Rio Rancho is seeking legislative authority for a gross receipts tax (GRT) for the purpose of financing a UNM campus in Rio Rancho. Specifically, Rio Rancho wants authority for up to a .25% GRT in .06% increments to support 20-year GRT revenue bonds. The tax would be subject to a vote of the public.

Senator Taylor asked how the proposed UNM health facility fits into UNM's master plan. He is concerned about a proliferation of UNM campuses.

Representative Whitaker stated that a .25% GRT would raise the Rio Rancho GRT to one of the highest in the state. The current GRT rate in Rio Rancho is 6.6875%.

Speaker Lujan asked how much revenue would be derived from the GRT. A full .25% would generate approximately $3 million per year. The GRT would support between $25 million and $40 million in revenue bonds.

Representative Whitaker asked about the impact on the main UNM campus in Albuquerque. UNM views the Rio Rancho campus not as a branch campus, but as an extension of the main campus, and it will allow for an expansion of the student population.
Speaker Lujan noted that by authorizing the GRT, the legislature would be committing to finance the annual operating cost of the Rio Rancho campus.

Senator Smith noted that Rio Rancho has existing capacity in its GRT and suggested that Rio Rancho might use some of its economic development capacity to finance the UNM campus. He is concerned that the city is reaching the limit of the GRT rate and the base is continually shrinking.

GRT Deduction for Veterinary Supplies and Services

Sharon Lombardi, executive director, Dairy Producers of New Mexico, presented the group's desire to eliminate the GRT on veterinary services for dairy cattle.

Dairy farming has changed drastically over the past 20 to 30 years. At one time, there were over three million dairies in the U.S.; now, there are approximately 160,000 nationwide. The reasons are many for this decrease in number. Most dairies in New Mexico came from California, where farmers sold land due to encroachment. All the farmers knew was dairying, so they looked for a place where they could continue to dairy farm.

It is important to remember that dairy products are one of the most regulated foods in America. Burdening smaller dairy farms with excessive regulations is considered to be one of the causes of the change in dairy farming. Farmers have had to greatly expand operations in order to survive the extra cost of production and regulations. Dairy farmers have always worked hard to implement a wide range of measures to keep their animals and the milk supply safe, including standard herd health and bio-security procedures, including meticulous record keeping on the health of each cow, routine medical checks by veterinarians and training employees to closely monitor animals and milking facilities.

Since mid-2004, New Mexico dairy farmers' milk prices have hovered around the break-even mark while the 2006 prices have been about $2.00 to $3.00 per 100 weight below the cost of production. The increase in feed prices, as well as higher utility and gasoline prices, has put a burden on New Mexico dairy farms. In order to maintain a healthy and sustainable dairy industry in New Mexico, groups are trying to find ways to help its bottom line. Since animal health is very important to dairy farmers as well as consumers, the legislature is being asked to look at a GRT deduction for veterinary medical services, medicine or medical supplies for livestock and to join the majority of other states that now have this in place.

Senator Smith would like a fiscal impact report from TRD before moving to support the proposed GRT deduction. He noted that he might be supportive of a deduction if there is a milk sale price threshold in the legislation.

Senator Beffort asked where New Mexico's ranks in cheese production. Ms. Lombardi stated that New Mexico is currently eighth in the nation. Senator Beffort would support a deduction for veterinary services because New Mexico is competing with other states that do not tax veterinary services.

Representative Crook noted that dairy farmers close to the Texas border travel to Texas for veterinary supplies to avoid the New Mexico GRT.

Senator Taylor noted that agriculture ranks high in New Mexico's economy.

Senator Smith noted that the deduction in the draft bill is a broader than just for dairy cows; it would include horses and any animal that meets the definition of "livestock". The scope of the bill will be reduced to be as narrow as possible, but Ms. Lombardi was uncertain if a differentiation could be made between beef cattle and dairy cattle.

Municipal Sports Authority GRT

The Regional Sports Authority Act was presented by Tom Horan, lobbyist, City of Albuquerque. The bill establishes the municipal and county regional sports authority GRT, and authorizes the creation of and provides powers to regional sports authorities.

The purpose of regional sports authorities, comprised of two or more governmental units, would be to plan for and create athletic and recreational services for the citizens of the authority; to plan, construct, operate and maintain athletic and recreational facilities; and to enter into agreements with other political subdivisions, public schools and universities to allow residents of other political entities to use the facilities of the authority.

Each county or municipality that is a member of a regional sports authority will have to enact a municipal regional sports authority GRT or county regional sports authority GRT. The local option would be imposed in increments of one-sixteenth percent, but not to exceed one-fourth percent, and is to be used for the management, construction or operation of a regional sports authority or for specific public athletic or recreational projects or services of the authority. The tax must be approved by a majority of the voters.

The local regional sports authority GRT would be eligible for the hold harmless distribution placed on food and medical deductions. The TRD will also receive an administrative fee from the local regional sports authority GRT.

Public hearings and display of public notices would be made before the regional sports authority would be created. The governor would also have to approve the regional sports authority. The bill also outlines the powers and duties of the board for each authority. An authority would be able to sue and be sued, enter into contracts and agreements, set fees for the authority's facilities, pledge revenues to the payment of bonds, acquire personal property and rights of way, accept property and gifts, and provide services outside the boundaries of the authority. It allows the authority to issue revenue bonds, with the proceeds used to finance the purchase, construction, renovation, equipping or furnishing of a sports authority project. The property and income of the sports authorities and income from their bonds would not be subject to state taxes. Representative Arnold-Jones is concerned about the composition of the proposed board of a regional sports authority. She does not believe that there is a provision for public redresses. Senator Taylor noted that most municipalities already finance such projects as parks with existing GRT. He is skeptical about authorizing the creation of a new government entity and another GRT. He noted that Albuquerque should be engaging in the activities proposed in the legislation with existing resources.

Other TRD Concepts for 2007 Session Introduction

Patricia Herrera and Phillip Salazar, TRD, began the presentation of TRD proposals that are not yet drafted in their final form and will most likely be introduced in the 2007 legislative session.

1. Proposed legislative concept regarding licensee tax compliance.

Intent: Propose legislation to ensure that licensing agencies are informed of tax reporting and payment failures that would lead to denial, suspension or revocation of a license issued once the TRD has a "settled tax liability" due on the taxpayer-licensee's income tax return or other state or local tax return for which the licensee is responsible, or deemed responsible, for paying. The bill also amends Section 7-1-8 NMSA 1978, which requires confidentiality of information submitted in tax returns, to allow for reporting of appropriate tax information to licensing agencies.

Representative Arnold-Jones asked if the proposed concept would apply to lawyers and physicians. Mr. Salazar stated that it would not apply to lawyers because lawyers are not licensed by the Regulation and Licensing Department (RLD).

Representative Arnold-Jones noted that not all licensees are licensed by RLD. She believes that if tax compliance is going to be used to determine eligibility for licensure, all persons should be subject to the same rules, not just those licensed by RLD.

Senator Smith asked how TRD seeks to settle delinquent taxes. Mr. Salazar noted that TRD enters into payment plans and a delinquent taxpayer that enters into a plan would not be reported to RLD.

Senator Smith feels that the proposed concept is very broad and could result in a taxpayer being denied the ability to do business, therefore threatening the taxpayer's livelihood.

2. Ken Ortiz, director, Motor Vehicle Division (MVD), identified the following Motor Vehicle Code (Code) deficiencies that act as major obstacles to improving the MVD's service to the public:

- language in the Code is obsolete and unclear;
- code definitions are inadequate or inconsistent with applicable federal definitions;
- the fee structure in the Code is confusing to both employees and customers;
- the Code is inconsistent with some federal requirements;
- the Code contains a number of internal conflicts and inconsistencies;
- the Code provisions do not sufficiently prevent and control fraud; and
- the Code does not meet the current business needs of MVD or its customers.

Senator Beffort inquired about the potential loss of federal funds. Mr. Ortiz explained that federal law requires that all motor vehicle citations pertaining to the holder of a commercial driver license (CDL) must be posted on the license. New Mexico law is in conflict because CDL holders referred to a diversion program by a judge do not have the citation shown on their license, i.e., their citation is "masked". The federal government has informed states that it intends to sanction states that are not in compliance.

<u>Tuesday, December 5</u>

Governor Richardson's 2007 Tax Proposals

Jan Goodwin, secretary of taxation and revenue, outlined the following governor's tax proposals.

Working Families Tax Credit

A new refundable tax credit would be created in the amount of 10% of the federal earned income tax credit (EITC) for which a taxpayer is eligible. Taxpayers eligible for the Low Income Comprehensive Tax Rebate (LICTR) would be able to claim the greater of the amount they would receive under the LICTR program or the new working families tax credit amounts. Benefits from the new credit would increase with earned income up to a maximum and then decrease, as illustrated in the following figure.

Reduce Gross Receipts Tax Pyramiding

A new tax credit is created for a portion of the GRT on services purchased by New Mexico businesses that have less than $300,000 of gross receipts. Certain services are excluded from eligibility, including commercial linen, entertainment or recreation, intrastate telephone and telegraph, janitorial or cleaning, landscaping, repair and maintenance, construction, sewer and solid waste disposal, research and development and services whose price is eligible for any other New Mexico tax credit. The credit rate is set at 3.775% if the service was purchased within the boundaries of a municipality and 5.0% if purchased within an unincorporated area of a county.

Fiscal impacts: The proposal would take effect January 1, 2008, so the fiscal impacts would be $1.5 million in FY 2008, rising to $3.3 million per year beginning in FY 2009. Impacts were estimated using information from GRT returns and also from input-output estimates for each industry.

GRT Deduction for Hospitals

Under present law, hospitals are allowed a deduction for 50% of their gross receipts (Section 7-9-73.1 NMSA 1978). The proposal would increase that deduction to 100%. The deduction would be phased in over a three-year period, so that 67% of receipts would be deductible in FY 2008, 83% would be deductible in FY 2009 and 100% in FY 2010 and thereafter.

General fund fiscal impacts are estimated at $4.0 million in FY 2008 increasing to $13.2 million in FY 2010. Local government revenues would decrease by $2.7 million in FY 2008 and increase to $8.7 million in FY 2010.

GRT Deduction for Mutual Fund Advisory Services

A new gross receipts tax deduction would be created for the fees for performing management or investment advisory services. The new deduction would apply to services provided to a mutual fund, hedge fund or real estate investment trust.

General fund impacts are estimated at $100,000 per year beginning in FY 2008.

Angel Investment Tax Credit

A personal income tax credit would be allowed for 25% of qualifying investments in high-technology or manufacturing businesses. Investors would be allowed a maximum credit of $25,000 per investment, and a total of three qualified investments per year or $75,000 in credits. Credits in excess of liability could be carried forward for three years. An overall cap of $750,000 per year would be imposed on all credits claimed. Amounts in excess of the cap could be used in future years.

General fund fiscal impacts are estimated to be about $750,000 per year.

Extend $2,500 Personal Exemption to Households Making up to $40,000 (Single) and $60,000 (Married Joint)

This proposal extends the new personal exemption that just took effect this year (2006). Currently, this phases out and is not available to taxpayers making more than $27,000 (single) and $41,000 (married joint).

The fiscal impacts to the general fund are estimated to be $20 million per year. The additional tax benefits would accrue to 110,000 taxpayers, for average benefits of $180 per return.

Income Tax Exclusion of New Mexicans on Active Duty in the U.S. Armed Services

Salaries paid by the federal government to New Mexico taxpayers serving on active duty in the U.S. armed services would be exempt from state income tax.

The fiscal impacts to the general fund are estimated to be $9.4 million, which would be in the form of benefits received by 7,000 taxpayers for an average benefit of $1,340 per return.

Exclusion for 50% of Earned Income of Military Retirees

Military retirees would be allowed to deduct 50% of their earned income up to $50,000 for purposes of the income tax. Earned income would be defined to include wages and salaries, and proprietor's income from operation of a business or farm. Earned income would not include dividend and interest income or capital gains from ownership interests in any business.

The fiscal impact to the general fund would be $8.4 million per year as benefits that would flow to 12,000 retirees, an average benefit of $700 per return.

Expand Renewable Energy Production Tax Credits

The definition of "biomass" for purposes of the renewable energy production tax credit would be expanded to include all organic material available on a renewable basis.

The fiscal impact to the general fund is estimated to be $0.3 million per year.

Advanced Energy Products Manufacturers Credit

A new income tax credit would be provided for up to 5% of a taxpayer's spending on manufacturing equipment used in producing "advanced energy products". To be eligible to claim a credit, the taxpayer would employ at least one new full-time employee for every $500,000 of expenditures up to $30 million, and at least one new full-time employee for every $1 million of expenditures over $30 million. Advanced energy products are defined as vehicles powered by advanced energy sources, fuel cell systems, renewable energy systems and any components of these as well as components of integrated gasification combined cycle coal facilities and facilities that sequester carbon from integrated gasification combined cycle coal plants.

The fiscal impact to the general fund is estimated at $0.2 million per year in FY 2008 with potential for increases in the future.

Tax Credit for Energy-Efficient Heating and Cooling

Nonrefundable income tax credits would be allowed for the purchase of certain energy-efficient home heating and cooling appliances. Qualified appliances would be those eligible for federal income tax credits. State credits would be equivalent to one-half of the federal credit amounts. Total credits claimed by one taxpayer in all years would be limited to $250.

The fiscal impact from prorating estimates of the cost of the federal program appears to be about $700,000 per year for the cost of the program.

Oil and Gas Conservation Tax for Land Conservation

Distributions of the net revenue attributable to the Oil and Gas Conservation Tax Act are modified to direct one-half of the revenue to a new Conservation and Clean Energy Bonding Fund created as a special fund within the New Mexico Finance Authority (NMFA). Money in the fund is appropriated to the NMFA for debt service on bonds issued pursuant to the act.

The fiscal impact would be from shifting $10.5 million from the general fund to the new fund beginning in FY 2008.

GRT Holiday for Energy Star Appliances

A one-month GRT "holiday" would be created for purchases of appliances that meet the EPA's criteria for energy star appliances.

The fiscal impacts to general fund revenue would be a decrease of $500,000 per year. Local government revenues would decrease by another $300,000.

Increase Renewable Energy Production Tax Credit

The rate of the renewable energy tax credit for electricity produced using solar energy — currently $0.01 per kilowatt hour for the first 400,000 megawatt hours — would be increased to $0.02 per kilowatt hour for the first 200,000 megawatt hours of energy produced. The minimum size of an eligible facility for the credit would be reduced from 10 megawatts to one megawatt.

The fiscal impacts to the general fund are less than $50,000 per year for the next few years due to low levels of qualified activity in the state.

Tax Credit for Energy Conservation Expenses

Nonrefundable — but transferable — tax credits would be provided for owners of properties meeting "green building" criteria. Credits would be based on a sliding scale depending on the level of energy conservation achieved. The credit rates would be designed to offset approximately 35% of the added cost of meeting the green building standards. The program would be modeled closely after Oregon's sustainable building program.

- Tax credits would be allowed in dollars per square foot of eligible facility construction or renovation. The amount of credit per square foot would be adjusted according to the environmental standards met by the project.

- The total credit awarded to a project could be claimed over a four-year period, i.e. 25% per year.
- Credit amounts for commercial buildings would be calculated according to the rating achieved by the project using codes from the U.S. Green Building Council's LEED rating system.
- Residential property owners would have a choice of basing their certified costs on the build green NM gold certification (developed by the Central New Mexico Homebuilders' Association) or the U.S. Green Building Council's rating.
- Credits for manufactured housing would be $5.00 per square foot. In order to be eligible, the manufactured housing must be EPA energy-star rated.

The fiscal impacts would start small (less than $500,000 in FY 2008) but would increase over time. Impacts over time depend on two provisions of the proposal. If credit claims are spread over four years and the credit is transferable but not refundable, impacts are estimated to reach about $1 million per year by FY 2011. If 100% of the credits can be claimed immediately and the credit is made refundable, impacts are estimated to reach $5 million per year by 2011.

Tax Credit for Parents Who Adopt Special Needs Children

Under current law, parents adopting special needs children receive a tax benefit limited to a $2,500 exemption per special needs child adopted. This translates into about $80.00 per year in tax savings. The proposal would increase benefits significantly by converting the exemption to a refundable tax credit of $1,000 per special needs child. In addition, the credit would not be limited to care of children under 18 but would be available as long as the child qualifies as a dependent for federal tax purposes. Three hundred fifty households with 600 special needs children would receive benefits of $600,000 per year for average benefits of $1,700 per household.

The fiscal impacts to the general fund revenue would be decreased by $540,000 per year.

Senator Smith asked how many firms would be eligible for the GRT deduction for mutual fund advisory services. Ms. Goodwin said that four or five companies would qualify.

Senator Smith would favor a sunset on several of the tax cut proposals in order to evaluate the actual costs.

Representative Varela asked about the governor's position on the minimum wage. Ms. Goodwin responded that she is not familiar with the governor's intention with respect to the minimum wage.

Representative Varela asked about the total cost to the general fund of all the governor's proposals. Ms. Goodwin said that the total is $82 million.

Representative Varela asked about the incremental cost of the final phase of the personal income tax cut. Dr. Clifford stated that the reduction in the highest marginal rate from 5.3% to

4.9% will cost approximately $64 million.

Representative Varela asked about the cost of LICTR. Ms. Goodwin responded that the approximate annual cost is between $25 million and $30 million.

Senator Beffort would favor legislation that provides a tax incentive for installing drip irrigation on New Mexico farms. Ms. Goodwin said she would convey the message to the governor.

Senator Sharer asked why the governor is proposing a tax deduction for earned income for military retirees. Ms. Goodwin stated that the intention is to attract and retain military retirees as New Mexico residents.

Representative Arnold-Jones believes that the governor is proposing tax benefits only for out-of-state businesses. Ms. Goodwin responded that several of the proposals will benefit existing in-state businesses.

Legislative Endorsements

Pam Ray and Cleo Griffith presented drafts of bills for the committee to consider for endorsement. The promoter of each bill was asked to give a very brief explanation of the bill. Most bills had been presented to the committee during prior committee meetings and those that were not were sent to the committee members for review prior to the meeting. Thirty-four bills were presented to the committee. Three of those bills were withdrawn from consideration. Thirty-one bills were considered for endorsement, 22 were endorsed.

The following is a summary of the committee's position on each bill presented:

DRAFT NO.	TITLE	AGENCY	202#	ENDORSED	SPONSORS
1.	Tech Corrections	TRD	.163160.2	Y #1	Sen. Taylor
2.	Audit Provisions	TRD	.163163.4	Y #2	Sen. Beffort
3.	CDL Changes	TRD/MVD	.163164.3	Y #3	Sen. Taylor
4.	E-filing of Tax Returns	TRD	.163248.3	Y #4	Sen. Taylor Rep. A-J
5.	Oil and Gas-Non-Hydrocarbon Returns	TRD	.163250.4	Y #5	Sen. Taylor

6.	Gasoline and Special Fuels Bond & Deduction Clarification	TRD	.163391.2	Y #6	Sen. Taylor
7.	NAFTA-Truck Fleet Provisions	TRD	.163416.3	Y #7	Sen. Taylor
8.	Shared Agency Information Reports	TRD	.164207.2	Y #8	Sen. Taylor
12.	Local DWI Grant Fund - Increase Distribution of Liquor Excise Tax	NM Assoc. of Counties	.163264.1	Y #9	Rep. Gonzales
13.	Investment of Public Funds-Participation in Gov. Investment Fund	State Treasurer's Office	.164421.1	Y #10	Sen. Altamirano Rep. Varela (Also endorsed by IPOC)
14.	Reversion to State Aviation Fund	NMML	.164092.1	Y #11	Sen. Altamirano Speaker Lujan
16.	Local Option Comp. Tax	NMML	.164094.1	Y #12	Sen. Smith Rep. Gonzales
21.	Drug Testing and Reporting for Motor Carriers	NM Trucking Assoc.	.163469	Y #13	Rep. Gardner

22.	Voiding Indemnity Agreements	NM Trucking Assoc.	.163496	Y #14	Rep. Silva
23.	Failure to Use Seat Belt As Negligence	NM Trucking Assoc.	.163497.1	Y #15	Rep. Gardner
26.	Repeal Coal Surtax	BHP	.163535.3	Y #16	Sen. Altamirano
27.	Economic Obsolescence Oil & Gas Prop.	NMOGA	.164087.2	Y #17	Rep. Gonzales Sen. Taylor
28.	Economic Obsolescence Elec. Utility Property	PNM	.164091.2	Y #18	Rep. Silva
30.	Phased-In GRT Deduction for Private Hospitals	NM Hospital Assoc.	.164095.1	Y #19	Rep. Varela Sen. Smith
32.	Comp. Tax Cr. Navajo Coal-Fired E. Gen. Plant	Sithe-Global /Navajo Nation	.163549.1	Y #20	Rep. Taylor
33.	Rural Job Tax Credit	Rep. A-J	.164210.1	Y #21	Rep. A-J Sen. Cisneros
34.	Soil and Water Conservation Districts-Remove Sunset on Tax Levies	New Mexico Association of Soil and Water Conservation Districts	.164226.1	Y #22	Rep. Crook Sen. Taylor

The drafts that were not endorsed are in the following table.

DRAFT NO.	TITLE	AGENCY	202#
9.	Horse Racing Act	SRC/GCB	.163683.1
10.	GRT Deduction on Hearing and Vision Aids	Commn on the Deaf & Hard-of-Hearing - Rep. Silva	.163211.2
11.	GRT Deduction for Veterinarian Services and Supplies for Dairy Cattle	NM Dairy Producers	.163211.2
15.	Muni & Co Access to GRT Info	NMML	.164093.1
17.	Distribute Income Tax to Municipalities	NMML	.164097.1
19.	GRT for UNM Rio Rancho Campus	UNM	.163356.1
24.	Sports Authorities	City of Abq.	.163606.1
25.	Moist Snuff Tax Amendment	US Tobacco	.164127.1
29.	Surface Owner Protection Act	NMOGA/NM Cattlegrowers	.163394.1 .163342.2

The committee adjourned at 1:30 p.m.