MINUTES
of the
SIXTH MEETING IN 2009
of the
REVENUE STABILIZATION AND TAX POLICY COMMITTEE

December 14-16, 2009
Room 307, State Capitol
Santa Fe

The sixth meeting of the Revenue Stabilization and Tax Policy Committee (RSTP) for 2009 was called to order by Senator John Arthur Smith, chair, at 9:11 a.m. in Room 307 of the State Capitol in Santa Fe.

Present
Sen. John Arthur Smith, Chair
Rep. Edward C. Sandoval, Vice Chair
Sen. Carlos R. Cisneros
Rep. Nathan P. Cote
Rep. Anna M. Crook
Sen. Dianna J. Duran
Rep. Keith J. Gardner
Sen. Timothy M. Keller
Sen. Gay G. Kernan
Rep. Ben Lujan, Speaker of the House
Sen. Howie C. Morales (12/14 and 12/16)
Rep. Henry Kiki Saavedra (12/14-12/15)
Sen. William E. Sharer
Rep. Thomas C. Taylor (12/14-12/15)
Rep. Jim R. Trujillo

Absent
Sen. Tim Eichenberg
Sen. Timothy Z. Jennings
Rep. Rodolpho "Rudy" S. Martinez

Designees
Sen. Mark Boitano (12/14-12/15)
Rep. Debbie A. Rodella
Sen. Nancy Rodriguez
Sen. Bernadette M. Sanchez (12/15)
Sen. John M. Sapien
Rep. Luciano "Lucky" Varela (12/15-12/16)

Rep. Ray Begaye
Rep. Donald E. Bratton
Rep. Zachary J. Cook
Sen. Kent L. Cravens
Rep. Miguel P. Garcia
Sen. Clinton D. Harden, Jr.
Rep. Sandra D. Jeff
Sen. Carroll H. Leavell
Rep. Antonio "Moe" Maestas
Sen. Steven P. Neville
Rep. James R.J. Strickler
Rep. Don L. Tripp
Sen. Peter Wirth

Other Legislators Attending
Sen Rod Adair (12/14)
Rep. Andrew J. Barreras (12/15-12/16)
Rep. Thomas A. Garcia (12/16)
Sen. Linda M. Lopez (12/14-12/15)
Sen. Richard C. Martinez (12/14-12/15)
Sen. George K. Munoz (12/15-12/16)
Sen. Mary Kay Papen (12/14-12/15)
Rep. Benjamin H. Rodefer (12/15-12/16)

(Attendance dates are noted for those legislators not present for the entire meeting.)

Staff
Pam Ray, Staff Attorney, Legislative Council Service (LCS)
Doris Faust, Staff Attorney, LCS
Kate Ferlic, Staff Attorney, LCS
Ric Gaudet, LCS

Monday, December 14

Revenue Forecast

Secretary of Finance and Administration Katherine B. Miller, Secretary of Taxation and Revenue Rick Homans and Tom Clifford, chief economist, Legislative Finance Committee (LFC), presented the December general fund consensus revenue estimates. According to Global Insight, the national recession probably ended in June 2009. In New Mexico, the University of New Mexico's (UNM) Bureau of Business and Economic Research (BBER) predicts that job losses will continue through the second quarter of 2010. The depth and length of the recession means that state general fund revenues will take several years to achieve the peak levels of fiscal year 2008. The key factor in the current and other recent revenue estimates is not the often-volatile oil and gas revenues, but the steep declines in broad-based revenue sources, including the gross receipts tax (GRT), the corporate income tax (CIT), the personal income tax (PIT) and the motor vehicle excise tax.

The December forecast estimates $366 million more in total general fund revenues than the October estimate, mostly due to special session and executive order reductions. Recurring revenues dropped $10 million from the October estimate, which masks substantial weaknesses in the GRT. Offsetting this weakness somewhat is some strength in the CIT and federal mineral leasing receipts. GRT collections, which normally account for 30 percent of general fund revenues, fell 1.1 percent from fiscal year 2008 to 2009, with construction being the biggest drag on revenues. Fiscal year 2010 GRT revenues are expected to see the largest drop ever. Revenue levels from fiscal year 2008 are not expected to be surpassed until fiscal year 2012. Oil and gas revenues are expected to be $24 million higher than the October estimate. The percentage of general fund revenues from oil and gas, which reached a high of 25 percent in 2008, is expected to level out to the historic average of 15 percent in the next few fiscal years. The PIT, contributing about 20 percent of general fund revenues, fell 21 percent from fiscal year 2008 to 2009. PIT revenues are not expected to rebound for a few years. Corporate profits have seen modest gains this year, and the revenue estimate predicts an additional $30 million in general fund revenues.

One-time reversions and transfers to the general fund, mostly due to what is commonly called the "solvency package", have brought in an additional $376.6 million. All of that money was used to cover the expected shortfall in the fiscal year 2010 budget.

Overall, recurring general fund revenue from fiscal year 2009 to 2010 is expected to drop from $5.3 billion to $4.8 billion, a decline of more than nine percent. Fiscal years 2011 and 2012 should see revenue increases around six percent, followed by more modest gains near 3.5 percent the following two fiscal years. General fund revenues are not expected to reach the historic fiscal year 2008 level until fiscal year 2015. Mr. Clifford added that he believes the projected price for gas of $5.20 per thousand cubic feet (MCF) is too risky an estimate, given that current prices are around $4.00 per MCF.

Questions and comments from committee members included the following:

- How did the revenue estimate predict a 6.2 percent growth in fiscal year 2011? Mr. Clifford said that energy-related revenues make up the largest part of that growth. PIT revenues will increase, but that really represents a recovery from previous very low levels.

- Why is there an expected decline in oil production over time, when other states have been increasing production? Mr. Clifford said that historically, oil production has been declining one to two percent every year.

- New Mexico would not be in such a deep recession if it developed its natural resources. In San Juan County, wells are being capped much faster than they are being drilled. The revenue estimate predictions of higher gas volumes are not realistic.

- What is the status of the $150 million in frozen capital projects, and how has the freeze affected construction jobs? Secretary Miller said that the governor has frozen capital projects in order to identify projects that can be canceled in the upcoming legislative session. No projects have been canceled yet, and the intent of imposing the freeze was to identify projects that are not able to progress.

- The Department of Finance and Administration has delayed signing grant agreements, which has made some projects appear as if they are not progressing. The capital projects freeze hurts GRT revenues.

Taxation and Revenue Department (TRD) and Motor Vehicle Division (MVD) Proposals

Jim Nunns, tax policy advisor, TRD, and Alicia Ortiz, deputy director, MVD, presented several bills for which the department was seeking endorsement from the committee. Most of the bills had been presented at earlier committee meetings.

Tax Bills

- Withholding on oil and gas proceeds and pass-through entities (presented at the November meeting).

- Tax increment development districts (presented at the November meeting).

- Tax administration (presented at the November meeting). The bill includes two other bills presented to the committee in November. These require that surety bonds be posted with the TRD by in-state contractors and that the administrative fee withheld by the department be increased by one-fourth percent.

- PIT simplification (presented at the November meeting). The revised fiscal impact report (FIR) indicates a small net gain to the general fund every year.

MVD Bills

- Allow driver's licenses and identification cards to be renewed via the internet or mail (presented at the November meeting).

- Clarify expiration dates for driver's licenses of individuals under age 21 (presented at the November meeting).

- Require that a New Mexico driver's license be obtained within 30 days of establishing residency (presented at the November meeting).

- Cancel ignition interlock driver's license for noncompliance (presented at the November meeting).

- Mandatory auto insurance reform. The bill makes several changes to auto insurance statutes. Law enforcement officers will be directed to verify, through an electronic database, whether a vehicle at a traffic stop is insured; if the vehicle is insured, the officer would be prohibited from issuing a citation for failure to carry proof of insurance; if the vehicle is not insured, the officer may remove the license plate of the vehicle. The bill clarifies that the issuance of temporary operation stickers does not create a liability for the state or the local government issuing the sticker. The bill allows a driver who is not insured to pay a penalty assessment fine of $75.00 rather than the current practice of forcing the person to go to court. This provision should provide some relief to the state's overburdened courts. Finally, the bill increases the registration reinstatement fee for lack of insurance from $25.00 to $100. The FIR indicates a gain of $1 million annually.

- Require date of birth and driver's license to register a vehicle. This bill will make it easier for the TRD to create one account for each customer, which will track all driver and vehicle histories. The FIR indicates no fiscal impact.

- Lifetime driver's license revocation for vehicular homicide. The bill makes consistent the revocation period for DWI-related vehicular homicide, which is currently less stringent than convictions for DWI. After a conviction for vehicular homicide, a person would be able to apply for an ignition interlock license and could apply to the district court after 10 years for reinstatement of a regular driver's license. The FIR indicates no fiscal impact.

- Off-site vehicle sales provisions. The bill gives the MVD authority to provide intermediate sanctions for violation of provisions of the MVD program to allow off-site vehicle sales by dealers. Currently, the division may only revoke the dealer's license. The bill provides the opportunity to impose fines up to $10,000 per violation in addition to revoking a license. The FIR indicates no fiscal impact.

Questions and comments from committee members included the following:

- What is the justification for increasing the registration reinstatement fee for lack of insurance? Ms. Ortiz said that many people who are cited for lack of insurance buy insurance, pay the $25.00 reinstatement fine and then cancel their insurance policies. Increasing the fee to $100 would discourage people from gaming the system this way. The legislator said the fee should be deposited into the general fund rather than funding TRD's computer systems.

- Driver's license revocation for the rest of a person's life seems excessive as does the governor's idea of making the third DWI offense a felony.

- What is the status of the federal REAL ID Act of 2005? Ms. Ortiz said that Congress will not be able to address the problem until 2010. She said she expects the federal Department of Homeland Security to issue extensions for states to comply with the law.

- The use of social security numbers in renewing driver's licenses over the internet could pose a risk for that information to be misused.

- The current requirement that an ignition interlock device, which measures the alcohol content of a person, be installed in a vehicle if the person was convicted of driving under the influence of drugs, seems pointless.

- If New Mexico repealed the law that allows undocumented immigrants to obtain a driver's license, it would probably comply easily with the REAL ID Act of 2005. Ms. Ortiz said that other unfunded provisions of the act are still unresolved, such as the requirement that the MVD verify electronically the immigrant status of license applicants.

Legislative Proposal — Biennial Budget Process

Senator Keller presented a proposed bill for the committee's consideration that would establish a two-year budgeting process for the state. The budget for each biennium would be prepared and introduced in the legislature every odd-numbered year. During the even-numbered year, the legislature would only consider deficiency and supplemental appropriations as a supplement to the biennial budget. The two-year budgeting process would start in fiscal year 2012, which would allow state agencies sufficient time to prepare their first biennial budgets for the 2013 legislature. Senator Keller said this bill is similar to a bill the governor pocket vetoed a few years ago, but the governor has indicated he is open to the idea now.

Questions and comments from committee members included the following:

- Are there any constitutional issues that may prevent two-year budgeting? Senator Keller said that the LCS has indicated that there are none.

- Would the two-year budget process give more power to the executive branch, especially in the use of budget adjustment requests (BARs)? Senator Keller said the bill would not directly affect the balance of power between the executive and legislature, but he acknowledged that the process could be abused by agencies issuing multiple BARs over the biennium.

- Do other states have biennial budgets, and what has been their experience? Senator Keller said that Arizona and Kansas have biennial budgeting. A biennial budget would save money by significantly reducing printing costs and by reducing staff time in preparing budgets each year.

- If New Mexico had a biennial budget process in 2008, the state's finances would have been even more dismal than they currently are.

Review of Excise and Other Taxes

Mr. Clifford presented several excise tax revenue-raising options for the committee to consider. The first option he discussed was to raise the motor vehicle excise tax by one percent above the current three percent rate. A one percent increase would bring in $34 million in fiscal year 2011. The next option would be to increase the oil and gas emergency school tax by one percent. The current rates of this tax are 3.15 percent on oil and four percent on gas. Raising the tax on oil would bring in $40 million in fiscal year 2011, and raising the tax on gas would generate $53 million. However, comparing the combined oil and gas effective tax rates with those of surrounding states, New Mexico, which already has higher effective tax rates, could lose some production activity if the tax rates increased.

Another proposal studied is raising the liquor excise tax by an amount that would effectively add five cents to the cost of every alcoholic drink. Raising the tax on beer would generate an additional $25 million, on wine $4 million and on spirits $11 million. New

Mexico has the highest tax rate on beer in the region and the second highest rate on spirits. Alcohol purchases are also subject to the GRT. It could be argued that additional taxes on alcohol would add to the regressivity of the state's tax structure.

The premium tax on health insurance, currently set at 4.003 percent, could be raised by one percent, which would generate an additional $22 million in fiscal year 2011 and double that in fiscal year 2012. The tax is imposed on a calendar-year basis, so the fiscal year 2011 impact would not be as great as the subsequent years. It could be argued that because insurance companies are exempt from all other taxes except the property tax, raising the premium tax would not pose a significant burden. However, it could also be expected that an increase in the premium tax would be passed on to customers in the form of higher premiums.

The cigarette tax could be raised by $1.00 per pack. Because tribal sales of cigarettes account for a large portion of the state's total sales, one option would be to tax all cigarette sales in the state and then give tribes an exemption from the tax. This option would raise $30 million. The state could also not give tribes an exemption and make a distribution to tribes based on the sales of cigarettes to their own tribal members, which would raise $47 million. In conjunction with an increase of the cigarette tax, the tobacco products tax would be raised to 40 percent of the wholesaler's purchase price, which would raise $3.5 million.

Mr. Clifford presented the fiscal impact of reducing several tax credits, which currently exceed $100 million on an annual basis. The largest reduction could come from reducing the film production tax credit from 25 percent to 15 percent of qualified expenditures, which would generate $26 million. The main problem with tax credits is the lack of accountability, said Mr. Clifford. The opportunity cost of credits should be studied to gain a better understanding of their impact. As an example, rather than granting medical subsidies, that money could be used to match federal funds in Medicaid, which would increase the amount of medical services people use because new people would become eligible to receive health care. That would in turn create more revenue for the health care industry, offsetting the tax breaks it had previously received.

Questions and comments from committee members included the following:

- Does increasing the cigarette tax rate reduce the incidence of smoking? Mr. Clifford said that the last time New Mexico increased the cigarette tax, there was a modest decrease in smoking, but the major impact was the shifting to tax-exempt sales on tribal lands.

- What would be the net impact of eliminating the deduction from gross receipts on food? Mr. Clifford said that the state could raise $100 million per year.

- New Mexico needs to develop a mechanism for allowing medical providers to pass along the GRT to patients, which they currently cannot do under certain insurance plans.

- The increase in the liquor excise tax could be imposed at the retail level as a surtax.

Mr. Clifford said that could be done, but it would increase significantly the complexity of the tax. Increasing the liquor excise tax using the existing system would be much simpler.

- How would reducing the film production tax credit to 15 percent affect the presence of the film industry in the state? Mr. Clifford said he will study that issue. He said many states are currently revisiting their film industry incentives.

- The legislature should consider taxing junk food rather than all food.

- The state has relinquished much of its revenue from the GRT by distributing it to municipalities and counties. Maybe the GRT should be increased by one-fourth percent. Mr. Clifford said that would raise $140 million per year.

- Will changes to the national health care system affect New Mexico's premium tax? Mr. Clifford said that revenues collected from the premium tax probably will be affected, but the tax itself will not be.

Energy, Minerals and Natural Resources Department (EMNRD) — Dairy Biomass for Fuel

Fernando Martinez, director, Energy Conservation and Management Division, EMNRD, presented to the committee a bill draft granting a tax credit to dairies and feedlots of $5.00 per wet ton for transport to a facility that processes the waste into fuels or electricity. The credit will be phased out in 2020. The credit is capped at $5 million per year. Mr. Martinez also briefly discussed renewable solar energy tax credit legislation being proposed, which was presented at the committee's November meeting.

Questions and comments from committee members included the following:

- The state should consider establishing a grant program to help the renewable energy industry rather than providing a tax credit. Does the governor support the bill? Mr. Martinez said that he has not yet heard from the governor's office whether this bill will be supported.

- It needs to be determined whether the proposed energy production facility near Roswell will be efficient enough to be cost-effective. The department was asked to provide operational figures before the legislature considers the bill. T.J. Trujillo, lobbyist for the Dairy Producers of New Mexico, said that the Pecos Valley facility is still in the development phase. Although the developers originally wanted to produce electricity, with new developments in algae gas production, producing gas from feedlot waste now seems feasible.

The minutes of the November 23-25, 2009 meeting of the committee were adopted without changes.

The committee recessed at 3:36 p.m.

<u>Tuesday, December 15</u>

Property Tax Issues and Suggestions

Jim O'Neill, consultant, Lee Reynis, director, BBER, UNM, and Janice McCrary, vice chair, Greater Albuquerque Association of Realtors, discussed with the committee issues surrounding the property tax. Mr. O'Neill began by stating that the recent lawsuits in the second judicial district have left New Mexico with two separate property tax codes: one for that district, and one for the rest of the state. Two judges have ruled that significant portions of Section 7-36-21.2 NMSA 1978 are unconstitutional. That section limits increases in the valuation of property except when new construction occurs or there is a change of ownership. There is reason to believe that the unconstitutionality of that section will be upheld by higher state courts, and there is no current remedy in statute to solve the problem.

Mr. O'Neill suggested some options, the first being to repeal Section 7-36-21.2 NMSA 1978. If the legislature repealed that section, other property valuation limitations in other sections would remain, such as for elderly and disabled residents. However, just repealing that section would have serious political consequences, because nearly everybody's tax liability would increase, subject to the yield control limitations in place. Another option would be to create a new general valuation limitation that meets the requirements of Article 8, Section 1 of the Constitution of New Mexico. The new valuation limitation could change how much the increase is limited to, and it could also set up different classes of residential property taxpayers. Other options to be considered include changing the tax ratios between residential and commercial properties and increasing the head of family exemption, which can be tailored to fit exactly the set of properties where relief is desired.

Ms. Reynis then gave an overview of the property tax system in New Mexico. The state stopped receiving operating money from property taxes after it relinquished the 20-mill levy to municipalities and counties in the 1980s. The statewide property tax is only used for debt service on state general obligation bonds. The state does take credit for the one-half mill levy imposed by school districts but distributes that money through the state equalization distribution. The total taxable value of residential property in New Mexico in 2008 was $27.8 billion, and nonresidential property was valued at $22.7 billion. Residential valuations have risen more quickly than nonresidential valuations in the past 10 years.

Ms. Reynis presented several proposals to reform the property tax system, the first being the reinstatement of a statewide one-mill levy to fund public schools, which would raise $50 million annually. County assessors need to be allowed to bring all properties to their current and correct values, and they need to have the tools to do their jobs. She suggested effective safeguards to protect low-income homeowners and protections for those who may have high-valued land but little ability to pay high property taxes. One idea would be to defer payment of a certain portion of property taxes until the sale of the property.

Ms. McCrary gave a presentation on how the property tax lightning issue has become progressively worse each year since the enactment of valuation limitation legislation in 2000.

While property values increased at an average of two to five percent per year, there was not much of a valuation difference between newly purchased homes and their adjacent homes. However, the last several years have seen a rapid increase in actual property values, but assessors are limited to increasing the valuations of owner-occupied houses to three percent per year. When a house was sold, it was assessed at its current and correct value, which sometimes resulted in property taxes on a newly purchased home being more than twice as high as a similar adjacent house.

Questions and comments from committee members included the following:

- Property valuations should be at their current and correct levels, but that would cause much unrest in certain segments of the population. Mr. O'Neill said that one of the problems with the property tax is that the level of taxation is not related to the income level of the property owner.

- Was the decision by Bernalillo County Assessor Karen Montoya to reduce the valuations of all property tax protestors legal? Mr. O'Neill said that she merely followed the direction of the court.

- The tax lightning problem seems to be limited to only a few counties in the state. The legislature should investigate a local option for those areas in which the problem exists.

- Why did county assessors not value properties at their current and correct values, as required by law? Mr. O'Neill said that they tried to, but that they were also constrained by the three percent valuation limitation, which makes it impossible to comply with the current and correct provisions. He said that the legislature could remove the three percent cap for one year to allow valuations to adjust and then apply the cap again.

- Most residents who have lived in their houses for several years are content with the three percent valuation limitation. The only people who seem to be complaining about the limitation are the Realtors, who need to share some of the blame for the problem because they have been hesitant to disclose the true property tax obligations of newly purchased homes.

- Many lenders outside the Albuquerque metropolitan area did not make bad mortgage loans, and the housing bubble did not exist in rural areas.

Overview of the Governor's Budget Balancing Task Force

Mr. Nunns gave an update on the work of the Budget Balancing Task Force, which was scheduled to hold its final meeting and issue a final report on December 17. The task force would not be making any recommendations, but it will be providing FIRs and analyses of more than 50 revenue-raising options.

Questions and comments from committee members included the following:

- If the GRT is imposed on sales of vehicle fuel, a portion of that revenue should be distributed to the State Road Fund.

- How long does a person need to work in New Mexico to be subject to the PIT? Mr. Nunns said that if a person works 15 days in the state, that person is typically subject to the PIT. Some states are looking at lengthening that period to 30 days to reduce administrative hassles for itinerant workers. Income tax would still be paid in the person's home state.

- The task force was formed to balance the budget, but expenditure cuts are not being considered by the group. Mr. Nunns said that former Governor Garrey Carruthers was heading up a government "streamlining" group to identify potential cost savings in state government.

- Do the models that generate the FIRs use current economic data? Mr. Nunns said that the most recent data available from actual tax returns are used to predict the revenue impact of the various tax proposals.

- If the state income tax rates increase, will corresponding federal taxation decrease? Mr. Nunns said that because state income tax can be deducted from income for federal taxation purposes, for every one percent increase in the state PIT, an individual will actually pay on average only 0.6 percent more because of the federal deduction.

- Would it be possible to impose the GRT on bottled water in addition to junk food? Mr. Nunns said that would be possible, but the task force wanted to keep all of its proposals consistent with Streamlined Sales Tax Agreement definitions.

- Did the task force discuss tax expenditures? Mr. Nunns said the task force did not have a thorough discussion of tax credits and other tax expenditures.

Simulcast Dog Racing from Licensed Dog Racing Tracks

Ed Mahr, lobbyist, and Don Cook, general manager, The Downs at Albuquerque, presented a proposed bill to the committee to allow parimutuel wagering on simulcast dog racing. Mr. Cook clarified that this bill does not contemplate an expansion of gaming activities at the state's racinos, it only expands parimutuel betting at those facilities. Mr. Cook said that many of the Downs' patrons have asked for years to be allowed to bet on dog races in addition to horse races. He stressed that the simulcasts would only be from licensed dog racetracks from other states. Mr. Mahr said that there is now a successful adoption program for retired greyhounds and that former racers are no longer euthanized.

Questions and comments from committee members included the following:

- The Pueblo of Pojoaque currently simulcasts dog races, and the state does not realize any money from that activity. Does the legislation allow for advanced deposit wagering? Mr. Mahr said that it does not, and the intent is to mirror the existing parimutuel wagering system in place for horse racing.

Tax Incentive Review

Mr. Clifford introduced a panel to discuss business tax incentives. The panel included Thomas Pogue, professor emeritus of economics, University of Iowa, Timothy Van Valen, chair, Tax Policy Committee, Association of Commerce and Industry, Deirdre Firth, senior economic developer, City of Albuquerque, Bob Walton, vice president, business development, Albuquerque Economic Development (AED), and Deborah Inman, vice president, business development, AED.

Mr. Pogue began by giving an overview of New Mexico's business tax credits. Until about 30 years ago, no business tax credits were in existence, and as of 2009, there are nearly 30. Most of the tax credits have been enacted in the current decade. Credit claims have also grown significantly from $4 million in 2003 to more than $111 million in fiscal year 2009. While New Mexico has followed the nationwide trend of encouraging economic development by enacting credits and other business incentives, very little study of the effectiveness of those incentives has been performed. There is a need to establish a framework to evaluate business incentives. Some of the criteria to evaluate incentives should include whether the incentive actually increases tax revenue to the state and what the actual economic impact of the incentive is. Both of those questions are difficult to evaluate, said Mr. Pogue.

Ms. Firth described to the committee how the City of Albuquerque administers its industrial revenue bond (IRB) program. IRBs are essentially an abatement of property tax liabilities on real and personal property involved in qualified projects. Both new and expanding businesses use the IRB process, which requires a significant application and review process. Accountability is a crucial component of the IRB system. The program requires detailed annual reports, and the city is authorized to recoup taxes if a company does not perform according to what was promised in the IRB contract. However, there is flexibility to allow for companies that are not able to meet their performance goals due to circumstances beyond their control.

Mr. Walton and Ms. Inman discussed the activities of AED, which is a private, nonprofit organization that focuses on the recruitment and expansion of industries in the Albuquerque area. The organization was founded in 1960 and provides assistance to companies considering locating in the metropolitan area. The AED also works with local companies and since 2002 has assisted more than 500 local businesses. One of the main programs AED uses is the job-training incentive program (JTIP), which is a state-funded program to provide training for new employees. The program provides partial wage reimbursement for training new positions in economic-based companies.

Mr. Walton introduced John Spruce, chief executive officer of Mechtronics Solutions, Inc., an engineering company. Taking advantage of JTIP incentives, Mechtronics has been able to grow from a company with 13 employees in 2003 to 57 employees in 2009. Ms. Inman said that the JTIP program is currently out of money, and the Economic Development

Department (EDD) will ask for $2.5 million in emergency funding for the program in the upcoming session.

Mr. Van Valen said that business incentives are especially important now. Incentives are often used by businesses in obtaining financing. The development community does not see incentives as lost revenue to the state because if a project does not move forward, a credit is not issued. He said that accountability is important as long as the rules are not draconian.

Questions and comments from committee members included the following:

- If a company goes bankrupt, can revenue be recouped from an IRB? Ms. Firth said that revenue cannot be collected.

- There are many different reporting requirements for the state's business incentive credits. What would be the best practice to administer them? Mr. Pogue said the state should centralize the oversight of incentives and provide for standardized evaluations. Therese Varela, JTIP program manager, EDD, said that a recent study showed a 34 percent long-term retention of employees in companies receiving JTIP assistance. Many employees move on to other companies, which accounts for much of the low figure, she said. She also cited a study of the wages of 900 JTIP trainees, which showed much higher wages after their training.

- Utah has a very good incentive program with very strict accountability.

- Many credits have diminishing returns, and it is difficult to quantify the effects of credits.

The committee recessed at 4:07 p.m.

<u>Wednesday, December 16</u>

The committee reconvened at 9:13 a.m.

Summary of Revenue-Raising Options and Tax Principle Application

Mr. Clifford discussed tax policy principles in relation to possible tax increases. Recent tax law changes have resulted in a net $600 million reduction in state revenues, and the state faces a $900 million gap between revenues and expenditures in fiscal year 2010. He cited some studies that put New Mexico's tax burden on households above the average among surrounding states. Mr. Clifford said that many surrounding states are considering tax increases to deal with budget shortfalls.

Mr. Clifford said that raising taxes on high-income taxpayers would improve vertical equity but could create a narrower tax base, thus impairing efficiency. Currently, 60 percent of taxes are paid by nine percent of households, and increasing taxes too high on higher income persons will exacerbate this situation. However, any PIT increase will be partially offset by increased federal deductions. Mr. Clifford said that the state could either reduce the capital gains deduction or could allow the large deduction for investment in New Mexico.

Mr. Clifford said that the CIT is a highly concentrated tax that applies to a small minority of businesses in New Mexico. The top 250 corporations pay 90 percent of the CIT, and New Mexico has one of the highest rates in the region. He then discussed the GRT and said that the tax is largely a tax on services. He estimated that 70 percent of household purchases are exempt or deductible and that raising the tax rate will increase pyramiding. Eliminating the food deduction will broaden the GRT base and improve efficiency. He said that the food deduction is poorly targeted because most of the benefit goes to non-poor households.

New Mexico can increase excise taxes, and Mr. Clifford discussed some implications of various proposals. New Mexico excise taxes are relatively high in comparison with other states, with the exception of the motor vehicle excise tax. Revenue generated from an increase in the cigarette tax will be limited due to the tribal exemption. Increasing the liquor excise tax or the cigarette tax probably is also regressive, and significant rate increases could lead to the increased use of untaxed internet purchases.

Questions and comments from committee members included the following:

- Taxing food would instantly raise the price of food by an average of seven percent, which will hurt low- and moderate-income people. Mr. Clifford said that food stamps have always been exempt from the GRT. He said that the LICTR was originally designed to reduce the regressivity of the GRT, which probably should be increased if food is taxed again.

- How risky are the revenue estimates? Mr. Clifford said that he thinks the expected rise in the price of gas by 25 percent is not realistic but that the other estimates made by the consensus revenue group seem to be much safer.

- How much money would be generated by imposing the GRT on food and by increasing the GRT by one-fourth percent? Mr. Clifford estimated that the state would raise about $350 million annually.

- The legislature needs to address the problem that medical service providers have in not being able to pass along the GRT to many of their patients.

- What has been the major factor in the increase in state spending? Mr. Clifford said that health spending has accounted for at least one-third of state government growth.

- Would mandatory combined reporting broaden the CIT base? Mr. Clifford said that it would, somewhat.

- Food stamps do not always cover all the food expenses of a household, so many low-income households would suffer if food were taxed. In addition, only about three-fourths of the people who qualify for food stamps are enrolled in the program.

- Although it is politically difficult to raise taxes, it is very important that New Mexico not lose any ground it has gained in recent years in education and health care.

- The impact of local governments using operation property tax levies needs to be studied.

- Would it be a good idea to provide another tax amnesty period, which would allow delinquent taxpayers to pay their taxes without interest or penalties? Mr. Nunns said that the state allows managed audits, which are similar to an amnesty.

Legislative Proposal Endorsements

The committee did not endorse any legislation.

There being no further business, the committee adjourned at 11:15 a.m.