

**MINUTES
of the
FOURTH MEETING
of the
REVENUE STABILIZATION AND TAX POLICY COMMITTEE**

**October 6-7, 2022
State Capitol, Room 322
Santa Fe**

The fourth meeting of the Revenue Stabilization and Tax Policy Committee for the 2022 interim was called to order by Representative Christine Chandler, chair, on Thursday, October 6, 2022, at 9:01 a.m. in Room 322 of the State Capitol in Santa Fe.

Present

Rep. Christine Chandler, Chair
Sen. Benny Shendo, Jr., Vice Chair
Sen. Craig W. Brandt
Sen. William F. Burt
Rep. Micaela Lara Cadena
Sen. Pete Campos
Sen. Ron Griggs (10/6)
Rep. Susan K. Herrera (10/6)
Rep. Antonio Maestas (10/6)
Rep. Javier Martínez
Sen. George K. Munoz
Sen. Harold Pope
Rep. Larry R. Scott
Sen. Elizabeth "Liz" Stefanics
Rep. James R.J. Strickler
Sen. Peter Wirth

Absent

Rep. Doreen Y. Gallegos
Rep. Jason C. Harper

Designees

Rep. Tara L. Lujan
Rep. Rod Montoya
Rep. Kristina Ortez
Sen. Mimi Stewart (10/6)
Sen. Bill Tallman (10/6)

Rep. Kay Bounkeua
Rep. Rebecca Dow
Sen. Katy M. Duhigg
Rep. Joshua N. Hernandez
Sen. Gerald Ortiz y Pino
Sen. Shannon D. Pinto
Rep. Linda Serrato
Sen. William E. Sharer
Rep. Luis M. Terrazas

Special Advisory Member

Rep. Pamela Herndon

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

Staff

Pam Stokes, Staff Attorney, Legislative Council Service (LCS)
Lenaya Montoya, Staff Attorney, LCS
Anthony Montoya, Staff Attorney, LCS
Rebecca Griego, Records Officer, LCS
Nicole Waguespack, Researcher, LCS

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts and written testimony are in the meeting file and posted on the legislature's website.

References to Webcast

The time reference noted next to each agenda item in this document is cross-referenced to the webcast of the committee meeting, which can be found at www.nmlegis.gov, under the "Webcast" tab. The presentations made and committee discussions for agenda items can be found on the recorded webcast for this meeting.

Thursday, October 6**Welcome and Introductions (9:01 a.m.)**

Representative Chandler welcomed members, staff and presenters and asked members to introduce themselves.

The New Mexico Economic Forecast: Recent Developments and Outlook (9:05 a.m.)

Michael O'Donnell, director, Bureau of Business and Economic Research, University of New Mexico, provided economic outlooks for both the nation and the state. Nationally, jobs have reached pre-pandemic levels, but growth in the second and third quarters was disappointing. In addition, inflation, labor and supply chain disruptions, geopolitical events and whether the nation is in a recession are cause for concern. For the state, COVID-19 variants continue to be a concern, but the data show improvement; however, the improvement is slowing. The expectation for the next five years is for a slow, more consistent recovery upfront as compared to the national economy. If there is a recession, however, more pessimistic scenarios may occur. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20100622%20Item%201%20BBER%20NM%20Economic%20Forecast.pdf>.

State Land Office Update (10:32 a.m.)

Sunalei Stewart, deputy commissioner of operations, State Land Office, provided an update on the State Land Office's revenue generation and diversification efforts, including a summary of recommendations from an analysis performed by Headwaters Economics. Included

in the presentation was an overview of the trust land held by the state and the money generated for beneficiaries. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20100622%20Item%202%20NMSLO%20Presentation.pdf>.

State Reserves: The Differing Roles of Permanent Trust Funds and State Rainy Day Funds (11:21 a.m.)

Jennifer Janson, senior associate, Fiscal and Economic Policy, State Fiscal Health Project, The Pew Charitable Trusts, discussed various types of state funds, specifically trust funds and rainy day funds, and the use of those funds in stabilizing revenue generation. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20100622%20Item%203%20Pew%20State%20Reserves.pdf>.

Overviews of the Tax Stabilization Reserve and the Early Childhood Education and Care Fund (1:02 p.m.)

Ismael Torres, chief economist, Legislative Finance Committee, presented an overview of the Tax Stabilization Reserve and the Early Childhood Education and Care Fund, commonly referred to as the "Early Childhood Trust Fund". Mr. Torres discussed the history of the funds and their projected growth. Mr. Torres explained that, due to New Mexico's reliance on oil and gas, New Mexico's revenues are the fourth most volatile in the nation, but the Tax Stabilization Reserve, which operates as the state's rainy day fund, helps the state prepare for shocks in the oil and gas market and economic downturns. Mr. Torres further explained that soaring oil and gas prices and production have led to unexpectedly large distributions to the Early Childhood Education and Care Fund, which is forecast to have an estimated balance of almost \$9 billion by fiscal year 2027. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20100622%20Item%204%20LFC%20Overviews%20of%20the%20TSR%20and%20ECECF.pdf>.

The Severance Tax Permanent Fund (STPF): History, Performance and Projections (1:28 p.m.)

Mr. Torres provided background on the STPF, explaining that revenue from the oil and gas severance tax is first distributed to the Severance Tax Bonding Fund for capital outlay, and any remaining money is transferred to the STPF. Each year, 4.7% of the five-year average balance of the STPF is distributed to the General Fund. Steven K. Moise, state investment officer, State Investment Council (SIC), who was joined by Charles Wollmann, director of communications, legislative and client relations, SIC, and Dawn Iglesias, investment strategist, SIC, presented information on the establishment of the STPF, its historical growth and performance and several modeled scenarios that illustrate the estimated change in distributions to the General Fund if the STPF received additional inflows. One scenario estimated the \$560 million per year expected to be distributed by fiscal year 2050 under current law could be increased to nearly \$3 billion per year if certain oil and gas revenues are invested in the STPF. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/6/2022&ItemNumber=5>.

Overview of Excise Taxes on Alcoholic Beverages, Cannabis, Cigarettes and Tobacco Products in New Mexico (3:08 p.m.)

Mark Chaiken, director of tax policy, Taxation and Revenue Department (TRD), and Lucinda Sydow, chief economist, TRD, provided an overview of excise taxes in general and then provided a focused discussion on excise taxes related to alcoholic beverages, cannabis, cigarettes and tobacco products. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20100622%20Item%206%20TRD%20Excise%20Tax%20Presentation.pdf>.

Two Cannabis Business Owners' Perspectives on the Cannabis Excise Tax (4:15 p.m.)

Duke Rodriguez, president and chief executive officer, Ultra Health, and Mathew Muñoz, chief innovation and finance officer, Carver Family Farm, discussed their specific perspectives on recent cannabis legislation and cannabis excise taxes.

Recess

The meeting recessed at 4:56 p.m.

Friday, October 7

A Comparison of Alcohol, Cannabis and Cigarette Taxes (9:09 a.m.)

Richard Auxier, senior policy associate, Urban-Brookings Tax Policy Center, began his discussion with the goals and purposes of taxes, specifically, alcohol, cannabis and cigarette taxes. Mr. Auxier then discussed those specific taxes and national comparative data. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/6/2022&ItemNumber=8>.

The Gross Receipts Tax and the Health Care Industry (10:19 a.m.)

Mr. Chaiken discussed current issues relating to taxation and the health care industry, specifically the Gross Receipts Tax and distinctions that exist among differing types of health care providers. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20100622%20Item%209%20TRD%20Healthcare%20GRT%20Presentation.pdf>.

Health Care Practitioners' Perspective on State Taxation of the Industry (11:05 a.m.)

Kathy Fresquez-Chavez, D.N.P., M.S.N., F.N.P.-C., chief executive officer, Bella Vida Health Care Clinic and Medi-Spa; Todd Williams, M.D., vice president, New Mexico Medical Society; and Lynn Paul, chief financial officer, Eye Associates of New Mexico, discussed the specific health care services that their organizations provide and then explained their individual

perspectives as health care providers about the effects of taxes on their practices. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/6/2022&ItemNumber=10>.

Approval of Minutes (11:51 a.m.)

On a motion made and seconded, and without any objections, the committee approved the minutes of the August 11-12, 2022 meeting.

Adjournment

There being no further business before the committee, the meeting adjourned at 12:17 p.m.