MINUTES
of the
FIFTH MEETING IN 2012
of the
REVENUE STABILIZATION AND TAX POLICY COMMITTEE

October 29-30, 2012
Room 322, State Capitol
Santa Fe

The fifth meeting of the Revenue Stabilization and Tax Policy Committee (RSTP) for 2012 was called to order by Representative Edward C. Sandoval, chair, on Monday, October 29, 2012, at 9:13 a.m. in Room 322 of the State Capitol in Santa Fe.

Present
Rep. Edward C. Sandoval, Chair
Sen. Tim Eichenberg, Vice Chair
Sen. Carlos R. Cisneros
Rep. Anna M. Crook
Sen. Timothy M. Keller
Sen. Gay G. Kernan
Sen. Howie C. Morales (10/29)
Rep. Henry Kiki Saavedra
Rep. Thomas C. Taylor
Rep. Jim R. Trujillo

Absent
Sen. Mark Boitano
Rep. Donald E. Bratton
Sen. Timothy Z. Jennings, Senate President Pro Tempore
Rep. Ben Lujan, Speaker of the House
Rep. Rodolpho "Rudy" S. Martinez
Sen. John Arthur Smith
Rep. Bob Wooley

Designees
Sen. William F. Burt
Rep. Ernest H. Chavez
Rep. Zachary J. Cook (10/29)
Rep. Thomas A. Garcia (10/29), attending as a guest
Sen. Phil A. Griego (attending as a guest on 10/29 and as a designee on 10/30)
Sen. Nancy Rodriguez
Sen. William E. Sharer
Rep. Luciano "Lucky" Varela
Sen. Peter Wirth

Sen. Rod Adair
Rep. Ray Begaye
Rep. Brian F. Egolf, Jr.
Rep. Miguel P. Garcia
Rep. Roberto "Bobby" J. Gonzales
Sen. Eric G. Griego
Rep. Sandra D. Jeff
Rep. Antonio Lujan
Rep. Antonio "Moe" Maestas
Sen. George K. Munoz
Sen. Steven P. Neville
Rep. Debbie A. Rodella
Sen. Bernadette M. Sanchez
Sen. John M. Sapien
Rep. James R.J. Strickler
Rep. Don L. Tripp

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

Staff
Pam Ray, Staff Attorney, Legislative Council Service (LCS)
Ric Gaudet, LCS
Damian Lara, Staff Attorney, LCS
Pam Stokes, Staff Attorney, LCS

Guests
The guest list is in the meeting file.

Handouts
Handouts and other written testimony are in the meeting file.

<u>Monday, October 29</u>

Job-Creation Incentives Report

Maria Griego and Brenda Fresquez, program evaluators, Legislative Finance Committee (LFC), and Wade Jackson, general counsel, Economic Development Department (EDD), presented competing views on how the state has managed various statutory job-creation incentives. The LFC reviewed the performance of the Job Training Incentive Program (JTIP) and Local Economic Development Act (LEDA), administered by the EDD, and several tax incentives administered by the Taxation and Revenue Department (TRD). Generally, the LFC auditors determined that New Mexico lacks a comprehensive approach for financing and monitoring the performance of job-creation incentives. The lack of a regular, complete tax expenditure budget and the lack of a statewide strategic plan for economic development make the state ill-positioned to invest in incentives that create jobs at a reasonable cost to the state.

Since 2007, the state has issued $64 million in LEDA grants to private entities without meaningful safeguards to ensure that jobs were actually created. LEDA agreements do not include clawback provisions if a company fails to perform according to the grant agreement. The JTIP performance measures do not meaningfully assess the effectiveness of the program. The TRD administers many tax incentive programs, but it is unable to accurately measure forgone revenue or economic growth resulting from those incentives.

The LFC made several recommendations to improve the effectiveness of job-creation incentives, including the following.

- The legislature should formalize in statute public disclosure requirements and clawback provisions for businesses receiving incentives; prioritize incentives based on their cost-effectiveness; enact sunset provisions for all incentives; and establish guidelines for reporting tax credit data to the legislature.

- The EDD should include clawback agreements in its agreements and require local governments to do so when using state funds; establish a standard requirement for defining job creation; include job-creation reporting in LEDA agreements; establish minimum wage and job-count requirements for JTIP recipients; and require JTIP recipients to report job-retention and wage data for three to five years after receiving funding.

- The TRD should establish a standardized measure of economic return to evaluate job-creation incentives; follow current statutory requirements about reporting of incentives; and use the Pew Center on the States' guidelines to establish criteria for tax expenditure analysis.

Mr. Jackson began his presentation by pointing to recent studies showing that New Mexico's business climate ranks very low compared to surrounding states. New Mexico needs business incentives because the state taxes many goods and services that surrounding states do not tax. For example, New Mexico taxes manufacturing machinery, utility, transportation service, repair service, professional service and custom software expenses of businesses. Without tax incentives, New Mexico would become a very business-unfriendly state. The EDD uses LEDA grants, which create capital infrastructure, and JTIP funding, which trains New Mexico workers, to offset the burdensome tax structure imposed on businesses. However, the legislature could revise the tax code rather than tinker with incentives, which would send a clear message to the business community that New Mexico is business-friendly.

Mr. Jackson noted that EDD incentives constitute only a tiny fraction of all statutory tax expenditures. The EDD oversees about $40 million annually in tax expenditures, while overall state tax expenditures amount to more than $1 billion.

Mr. Jackson described the JTIP and LEDA incentive programs that the EDD oversees, and he defended the department's performance. The JTIP program has been in place since 1972, and since then has assisted in the creation of more than 40,000 jobs by funding more than 1,000 projects. The program is widely considered to be the most successful and important economic development tool in New Mexico. The JTIP program has performance measures and clawback provisions, and there are stringent compliance efforts and post-completion accounting reviews to ensure companies have performed under a contract.

Mr. Jackson then discussed the LEDA program, first by noting that the act's name is the "*Local* Economic Development Act" and that most of the regulatory responsibility falls on the local government entering into an agreement with a business. The legislature generally appropriates funds to the EDD to provide grants to local governments to fund their LEDA projects. The EDD has a formalized evaluation process for granting funding to projects, but that process has been circumvented many times because the legislature has made appropriations for specific LEDA projects. The Schott Solar, Hewlett Packard, Fidelity Investments and Santa Fe Studios projects were directly funded by the legislature, and they account for more than 50 percent of the total amount of LEDA funding since 2007.

The EDD is unable to have clawback provisions in its agreements, because it makes agreements with local governments, not private entities. Local governments may provide for those provisions, but for infrastructure funding projects, there is no money to claw back. If a company that has received infrastructure funding fails in its agreement, the infrastructure reverts back to the local government and remains an asset for other economic development potential.

Questions and comments from committee members included the following.

- LEDA is a program designed for local governments, and the EDD's role in LEDA is minimal. Ms. Fresquez said that the LFC wants the EDD to require that clawbacks be provided in agreements, and that local governments should include the state contribution in clawback provisions.

- The committee should be provided an opportunity to review the Martinez administration's upcoming capital outlay reform proposal.

- Does the EDD have specific tax proposals to spur economic development and job creation? Mr. Jackson said that the EDD will have specific proposals for the committee to consider at its November meeting. He said that New Mexico does not have a competitive climate for multistate companies looking to locate new facilities. The most important change the legislature could enact would be to allow the election of using a single sales factor (SSF) in computing corporate income tax (CIT) due.

- Schott Solar left New Mexico, but its infrastructure reverted to the local government. Why does the EDD need additional powers to claw back from the company? Ms. Fresquez said that when a company ceases operations, residents lose jobs and the state suffers economically.

- Will making an SSF change in statute be revenue-neutral? Mr. Jackson said that such a change would not be revenue-neutral initially. However, companies like Intel have indicated that they would not expand operations in New Mexico without an SSF option.

- Allowing an SSF option needs to be paired with a revenue-generating change, such as requiring combined reporting by multistate corporations. Mr. Jackson said that option is being discussed in the administration.

- The legislature and executive need to have access to sufficient data to evaluate tax expenditures. Sharing of confidential information across agencies will also help the state in that effort.

- Is JTIP and LEDA funding specifically tied to job creation? Mr. Jackson said that the JTIP requires certain job-creation goals in a specific time frame.

Microbrewery and Small Winery Volume Limit Changes

Senator Sue Wilson Beffort; Dan Weaks, lobbyist, New Mexico Winegrowers; Richard Weber, president, Sierra Blanca Brewery and Rio Grande Brewery; Jeff Jinnett, Marble Brewing Company; Brian Locke, Santa Fe Brewing Company; Berkeley Merchant, Abbey Beverage Co.; and Chris Goblet, New Mexico Brewers Guild, presented proposed bill drafts to the committee to increase the threshold amount of beer or wine produced by a company before a higher amount of liquor excise tax is imposed on its production. The winegrowers are proposing that a new taxation tier for wine be set at $0.30 per liter for amounts of wine produced between 950,000 and 1.5 million liters and that the normal tax rate of $0.45 per liter be set at a new threshold above 1.5 million liters. The small breweries are proposing that the threshold amount to qualify for the lower liquor excise tax rate on beer of $0.08 per gallon be raised from 5,000 barrels to 15,000 barrels annually.

Mr. Weaks said that the liquor excise tax on wine produced in New Mexico is about twice as high as surrounding states. Senator Beffort said that small breweries have become economic drivers in many communities across the state. Mr. Weber said that the Sierra Blanca Brewery's excise tax liability will increase from about $1,250 monthly to more than $7,000 once his brewery reaches the current statutory threshold of 5,000 barrels. That ceiling is a significant deterrent to expanding his business. Mr. Berkeley said that microbreweries are ecologically sound small businesses that create jobs. The proposed law change reflects economies of scale in today's brewing industry, a change that will cost the state only about $100,000 annually in forgone revenue. Additionally, a new agricultural sector growing hops has developed in the state. Mr. Locke said that 25 states define small breweries, with a preferred tax rate, as producing at least 15,000 barrels annually. The Santa Fe Brewing Company recently hired seven new full-time employees and is looking to expand even more. Mr. Jinnett said that the Marble Brewing Company, which has already reached the 5,000 barrel threshold in 2012, will pay $35,000 extra in liquor excise tax because of the "tax cliff" in statute. His company has 45 employees with full benefits. Mr. Goblet said that five new breweries have opened in 2012, with eight more projected in the next year. On average, each brewery in the state employs 20 people.

Questions and comments from committee members included the following.

- What was the original rationale for setting the current thresholds for small wineries and breweries? Mr. Merchant said that the thresholds were picked as arbitrary numbers, with no expectation that they would be surpassed. It used to be difficult to sell craft beer, but now everybody seems to prefer it.

- Why did Sierra Blanca Brewery move its production facility from Ruidoso? Mr. Weber said that shipping costs to and from the brewery became prohibitive. The brewery needed immediate access to the I-40 corridor.

- Before the legislature raises the threshold amounts, it needs to consider what impact the change will have on regular wholesalers and manufacturers.

- Have the small brewers and wineries discussed the proposal with the Tourism Department? Mr. Weaks said that his group has had conversations with staff at the department, and it appears that the administration would support the proposal.

Online Sales Tax Compliance and Necessary Legislative Changes

Helen Hecht, Federation of Tax Administrators, and Richard Anklam, president and chief executive officer, New Mexico Tax Research Institute, gave the committee an update on pending federal legislation setting the parameters for states to tax online sales. There is growing bipartisan support for such a measure, which would require states to conform to certain minimum requirements aimed at making compliance simpler. A rough estimate of how much extra revenue New Mexico may gain comes to about $70 million, depending on the final version of the legislation. Since New Mexico has a gross receipts tax (GRT) imposed on sellers versus a sales tax imposed on buyers, New Mexico may have more challenges conforming to the legislation. However, initial analysis has suggested that New Mexico could conform its compensating tax to apply to remote sales much easier than changing the structure of the GRT.

If the federal legislation is enacted, states will be required to conform to requirements in order to impose a tax on remote sellers, including having state-level administration, a uniform tax base, exceptions for small businesses, applicable destination rates for each taxing jurisdiction, sufficient notice of rate changes and general sourcing rules. In addition, the legislation may include vendor compensation for collection of taxes and special rules for digital sourcing.

Questions and comments from committee members included the following.

- Does the proposed federal legislation apply to international sales? Ms. Hecht said that the bill would not. Any international taxation would require participation by the federal government.

- The New Mexico legislature may need to enact legislation in the 2013 session if the proposed federal law passes in the next few months.

- Would New Mexico's GRT be considered an applicable tax according to the proposed federal legislation? Mr. Anklam said that most of the GRT generally would be considered an applicable tax but that some changes to its structure would be required.

Manufacturing and Construction GRT Deductions

Tom Clifford, secretary of finance and administration, Demesia Padilla, secretary of taxation and revenue, and John Tysseling, chief economist, TRD, discussed with the committee the revised fiscal impact of recent legislation granting deductions from gross receipts for certain manufacturing and construction expenses. The law, enacted during the 2012 legislative session, provided the following principal components:

- a deduction from gross receipts for items sold to manufacturers that are consumed in the manufacturing process, phased in over five years;

- a deduction from gross receipts for the sale of design, architectural, testing and other construction services to a contractor, as long as the construction project is ultimately taxable;

- a deduction from gross receipts for the lease of construction equipment, as long as the construction project is ultimately taxable; and

- a revenue offset to small municipalities and counties to compensate for the loss in their GRT tax base.

Although the initial fiscal impact for full implementation of the law was predicted to be $40 million annually, soon after the legislation was enacted, revised estimates of up to $80 million were projected. The manufacturing consumables deduction accounts for all of the original estimate error. The two principal reasons for the error are that economists used an inaccurate data source to estimate power consumption by manufacturers, and it was determined later that certain oil and gas sector operations would qualify for the new deduction. Secretary Clifford apologized to the committee for the error.

Secretary Padilla said that the TRD is working on rules for the manufacturing consumables deduction. Rules for the construction-related deductions are ready to be issued. The manufacturing sector is a very sophisticated sector, and the TRD is trying to define what qualifies as a consumable in the manufacturing process. Utility companies have expressed concern about the new law, which appears to require that they develop separate billing procedures for the manufacturing sector in order to be able to pass the deduction on to the manufacturer customer.

Questions and comments from committee members included the following.

- Fiscal impact estimate errors are not new. A recent bill to require combined reporting by multistate corporations mysteriously had its $90 million positive fiscal impact reduced to $5 million. The food and medical deductions, which have cost the state hundreds of millions of dollars, were touted by administration economists as being revenue-neutral. Over six years, the current manufacturing consumables estimate will cost $144 million more than originally estimated.

- Local governments will also see their revenues decrease from the new deductions. Secretary Clifford agreed, but he said that the legislation will spur new business activity. The legislation makes a major investment in the state's economy.
- TRD staff was asked to provide the legislature with a report of how much the deduction has been used before the end of the 2013 regular legislative session.

- Does the new legislation provide a deduction for the use of a power source to produce electricity? Secretary Clifford said that an existing section of law already provides for those expenses to be deducted from gross receipts.

The minutes of the September 16-17 meeting of the committee were adopted without changes.

Laboratory Partnership with Small Business Tax Credit Report

Jackie Kerby Moore, Sandia National Laboratories, and Mariann Johnston, Los Alamos National Laboratory (LANL), gave a report to the committee on activities of the New Mexico Small Business Assistance Program (NMSBA) operated jointly by the laboratories. The NMSBA is a catalyst for the transfer of cutting-edge technology from the two laboratories to address a wide range of business needs across New Mexico. Each laboratory is allowed to claim a tax credit of up to $2.4 million annually pursuant to expenses incurred in providing technical assistance to small businesses. Since 2000, the NMSBA has provided assistance to 1,876 businesses, most of which are located in rural areas of the state. In 2012, more than 300 businesses have been assisted, with more than $4 million in assistance provided.

Daniel Gagnon, owner of Herbs, Etc., discussed with the committee the assistance given his company by LANL scientists to set better specifications for bacterial contamination testing of its products. LANL also streamlined the company's production to increase manufacturing efficiency. Herbs, Etc. has 31 full-time employees, with more than $1 million in payroll expenses. It recently purchased a new 10,000-square-foot building to expand its operations.

Questions and comments from committee members included the following.

- How much of Herbs, Etc.'s production process is done in New Mexico? Mr. Gagnon said that 95 percent of the company's production is performed in the state. All packaging and marketing is also done in-state.

- Does the NMSBA duplicate activities performed by the Small Business Administration (SBA)? Ms. Kerby Moore said that the NMSBA partners with the SBA and other economic development programs. The NMSBA provides direct technical assistance to small businesses and the SBA provides other services.

Unemployment Insurance Funding Update

Celina Bussey, secretary of workforce solutions, gave an update to the committee on the status of the Unemployment Compensation Fund. In November 2011, Governor Martinez convened the Unemployment Compensation Advisory Council, which was charged with formulating policies to help ensure the long-term stability and solvency of the fund. Another goal of the council is to take politics out of the management of the fund, since the legislature for years has delayed statutory increases in the employer contribution schedule. The council is investigating whether to seek legislation to:

- implement a floor and ceiling of the fund to prevent insolvency and to keep it from growing too large;

- overhaul the contribution rate structure and add new schedules and experience rating bands to ensure more gradual, equitable and predictable rate changes;

- set a target fund balance; and

- prevent fraudulent claims and overpayments.

Other areas of discussion the council has engaged in include communication and outreach, material improvements, work search requirements, suitable work requirements, partial benefits, double affirmation and negative account balances. Secretary Bussey described negative account balances, which occurs when employers' accounts have more benefits paid out than contributions received. Some employers have a long history of negative accounts, which causes the rest of the employers to pay for those expenses. These excess payments have become a socialized liability of the unemployment compensation program.

The fund balance as of October 24, 2012 was $54 million. The Workforce Solutions Department is currently in the process of receiving third-quarter contributions. Most contributions to the fund come in the first two quarters. The fund balance is expected to decline until March 2013. Approximately 26,000 people are certifying for unemployment compensation benefits each week, which is a decline from approximately 45,000 people in 2011.

Questions and comments from committee members included the following.

- What is the status of the State Unemployment Trust Fund? Secretary Bussey said that the fund balance of $117 million was transferred to the Unemployment Compensation Fund in 2010.

- The government sector in New Mexico has lost 5,000 jobs in the past year, but state government vacancy rates are still very high.

- What will the employer contribution rate be in 2014? Secretary Bussey said that it should be Schedule 1. The problem with the current contribution schedule structure is that employers in the mid-contribution range that are doing well and being responsible end up paying the most when a rate increase happens. New employers and negative account employers currently pay the same rate.

- Are predictions of a jobless economic recovery proving correct? Secretary Bussey said that the construction sector may never recover to previous levels but that other sectors are recovering.

- Is there a skills gap for workers in New Mexico? Secretary Bussey said that many companies have to recruit qualified workers from out of the state. In addition, the earning potential of New Mexico college graduates tends to be higher outside the state, so many students leave the state after graduation.

The committee recessed at 4:24 p.m.

<u>Tuesday, October 30</u>

The committee was reconvened by Representative Sandoval on Tuesday, October 30, 2012, at 9:10 a.m.

Capital Outlay Report

Stephanie Schardin Clarke, director, Board of Finance Division, Department of Finance and Administration (DFA), and David Abbey, director, LFC, presented an update on capital outlay bonding capacity, the status of outstanding capital projects and a preliminary draft of possible state agency capital projects to fund. Ms. Schardin Clarke said that the August 2012 estimate of severance tax bonding capacity for fiscal year 2013 was $514 million. After subtracting $179.5 million in supplemental severance tax bonds for public school infrastructure, $33.5 million for water projects, $16.7 million for colonias projects, $16.7 million for tribal projects and $43.9 million for authorized but unissued projects, $223.7 million will be left for allocation by the legislature and executive during the upcoming legislative session.

Mr. Abbey said that the total amount of requested state agency and local government capital outlay for the upcoming session is approximately $2 billion. $300 million was requested by state agencies, of which $72.7 million would be to complete ongoing projects. Higher education institutions and state special schools requested $293.7 million. Local governments requested $1.5 billion for their top three priorities, which generally include requests for roads, water and wastewater facilities and public health and safety facilities. Mr. Abbey noted that the Department of Transportation did not submit a capital outlay request, even though there continues to be more than $900 million in state highway, bridge and maintenance shortfalls. Mr. Abbey then briefly discussed the LFC quarterly report on the progress of ongoing capital projects.

Questions and comments from committee members included the following.

- The LFC staff was asked to provide the committee with fiscal year 2012 capital outlay reversion data.
- Perhaps money allocated toward the Paseo del Norte highway interchange project in Albuquerque should be shifted to the Rio Bravo project because the Paseo del Norte project is not making progress.

- Will the executive submit a capital outlay budget to the legislature, as required by law? Ms. Schardin Clarke said that the Capital Outlay Bureau of the State Budget Division of the DFA is currently working on the executive capital outlay budget.

- The executive appears to be developing parameters for the legislature to make capital outlay appropriations.

- Governor Martinez has told some local government officers that if a capital outlay project is not on the local government's Infrastructure Capital Improvement Plan, she will not approve the project. This may cause some problems for desperately needed projects in communities that are not favored by government officials.

Sole Community Provider and Indigent Funding Report

Dan Weaks, lobbyist, New Mexico Hospital Association (NMHA), and Jeff Dye, NMHA, discussed with the committee issues surrounding the Sole Community Provider (SCP) program and county indigent funding. The SCP program began in 1994 in order to supplement funding costs in counties for indigent patients, to create a mechanism acceptable to the federal government to leverage Medicaid funds and to help offset the amount of uncompensated care hospitals provide. Since its inception, $1.2 billion in federal funds has been distributed to SCP hospitals.

The state needs a stable, growing revenue source for the SCP program in order to keep rural hospitals viable. The state has lost $177 million because it has not matched all possible federal funding. Another problem is that the federal government does not allow private hospitals to provide the county match required to get federal funding. Public hospitals do have this ability, though. Most local revenue for the SCP program is generated by the optional second one-eighth percent GRT increment for indigent funding, provided in statute. However, not all counties use the entire revenue stream to compensate hospitals, which has resulted in most hospitals incurring losses from the SCP program. To complicate matters further, 12 counties have enacted the one-sixteenth percent GRT increment for the county-supported Medicaid program, but many of the remaining counties have used a portion of the one-eighth percent indigent funding GRT increment to fund the county-supported Medicaid program. These developments over the years have diluted compensatory funding to hospitals for indigent care and have pitted counties against hospitals.

Mr. Weaks discussed several remedies to correct the funding shortfall. One idea would be to group certain types of state and county spending as "certified public expenditures" in order to leverage a larger federal match without the state or county needing to spend more money. Another idea would be to shift the county obligation, and any associated GRT increment, to fund indigent claims to the state. Currently, hospitals must make biannual requests to a county to receive funding for indigent care. However, there is no guarantee that counties will provide the funding, which makes hospital budgeting very difficult.

Perhaps the most promising solution, said Mr. Weaks, would be to allow counties to impose an assessment on hospitals and use that assessment as a portion of the matching money for federal funding. This would guarantee that counties fully leverage federal money, which would then be distributed to hospitals to pay for uncompensated indigent care. This solution would be a bit like a new tax, but hospitals would probably be in favor of it because it would provide many times as much revenue as the assessment cost.

Questions and comments from committee members included the following.

- Will the hospital assessment be a local option tax? Mr. Weaks said that it would be a local option, since some counties will not need to use the funding mechanism. He said that the administration is open to exploring this proposal further. Mr. Dye said that the 14 private SCP hospitals are forbidden by federal law from using their own funds to provide the federal match.

- Why will county indigent funds be needed once the federal Patient Protection and Affordable Care Act (ACA) is implemented? Mr. Dye said that the ACA will not be implemented immediately. Mr. Weaks said that the legislation could have sunset provisions if needed. However, he said that there will be many uninsured persons after full implementation of the act.

- What is the problem in Santa Fe County? Mr. Weaks said that the county provided Christus St. Vincent Regional Medical Center with only $100,000 in funding for indigent care, which has resulted in the loss of $18 million in federal match money. If the county had fully funded the request, the federal government would have provided a $30 million match.

- How many other states have implemented some sort of SCP funding mechanism for private hospitals? Mr. Weaks said that 47 states have such a mechanism, but not all of them are local options. He said if private hospitals were allowed to provide the match money, they would do so.

- Counties should not leave so much unleveraged federal match money behind.

- The state should assume the responsibility for the SCP program. Many counties have refused to impose either GRT increment. Santa Fe County refused to provide full indigent care funding because of a political dispute over whether Christus St. Vincent will perform certain medical procedures. The hospital is still providing indigent care, but it is currently losing $35 million to $40 million.

- Another possible solution would be for private hospitals to donate money to a special governmental entity, which would in turn provide that money as a match for federal funding.

Retiree Program Solvency Report and Legislative Proposals

Susan Pittard, general counsel, Public Employees Retirement Association (PERA); Jan Goodwin, executive director, Educational Retirement Board (ERB); and Mark Tyndall, executive director, Retiree Health Care Authority (RHCA), presented preliminary proposals designed to fully fund the programs in the future.

PERA Proposal

The retirement fund of PERA currently has an actuarial funded ratio of 65.3 percent. In order to reach a 100 percent ratio by 2042, the PERA board recommends making the following changes:

- for employees hired after June 30, 2010, a 1.5 percent increase in employee contributions; a .5 percent reduction in the annual pension factor; increases in the retirement eligibility; averaging of the final five years of salary instead of the current three years; increased vesting requirements; increasing the pension maximum to encourage employees to work longer; a reduction in the cost-of-living adjustment (COLA); and an increase in the length of time before a COLA is given;

- for current active members hired prior to July 1, 2010, a 1.5 percent increase in employee contributions; a reduction in the COLA; a graduated increase in the length of time before a COLA is given; and an increase in the pension maximum; and

- for current retirees, a reduction in the COLA and a suspension of the COLA for return-to-work retirees.

ERB Proposal

The Educational Retirement Fund currently has an actuarial funded ratio of 59.8 percent. In order to reach a 95 percent funded ratio by 2043, the ERB board recommends making the following changes:

- a graduated increase in member contributions to 10.7 percent for all members;

- for new members, a minimum retirement age of 55 years; and

- for new members, no COLA until a retiree reaches age 67.

RHCA Proposal

The Retiree Health Care Fund is expected to run a deficit by fiscal year 2019, and fund balances will go negative by fiscal year 2029 under current statutes and the policies of the RHCA. In order to maintain a positive fund balance through fiscal year 2045, the RHCA recommends making the following changes:

- phase out family coverage subsidies for retirees with multiple dependent children;

- increase cost-sharing on prescription coverage;

- increase cost-sharing of pre-Medicare plans;

- implement graduated minimum age requirements to be eligible for subsidies;

- reduce pre-Medicare retiree and spousal subsidies;

- implement enhanced wellness programs; and

- enact legislation to increase employee contribution levels by .75 percent and employer contribution levels by 1.5 percent.

Legislative Proposal Discussion

Ms. Ray and Ms. Stokes presented to the committee three proposals for the committee's consideration:

- a bill to decrease the top CIT rate from 7.6 percent to 6.4 percent and also to require combined reporting of tax returns by multistate corporations;

- a bill to provide an SSF for corporations to calculate CIT due and also to require combined reporting of tax returns by multistate corporations; and

- a bill to require taxpayer reporting of certain tax credits and deductions and to provide for legislative review of certain tax credits and deductions.

Legislative Proposals by Senator Keller

Senator Keller presented three proposed bills for the committee's consideration:

- a bill to provide for independent hearing officers to hear tax protest and assessment cases. The hearing officers would not be employees of or under the control of the TRD;

- a bill to provide a new commercial activity CIT credit for certain new or expanded business in New Mexico providing economic-based jobs; and

- a bill to provide personal income tax and CIT credits for employers that employ recent New Mexico college graduates.

There being no further business, the committee adjourned at 12:19 p.m.