

LFC Requester:	Jennifer Faubion
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**AGENCY BILL ANALYSIS
2024 REGULAR SESSION**

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:

Analysis.nmlegis.gov

{Analysis must be uploaded as a PDF}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Date 1/30/2024

Original **Amendment**
Correction **Substitute**

Prepared: _____
Bill No: SB 243

Sponsor: Senator Correa Hemphill

Agency Name and Code Tourism - 418
Number: _____

Short Title: HOTEL RENOVATION TAX CREDIT

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SECTION II: FISCAL IMPACT

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$250	\$250	\$750	Recurring	GF

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
 Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Senate bill 243 creates the hotel renovation income tax credit and the hotel renovation corporate income tax credit, provides stipulations for eligibility, and assigns the tourism and tax and revenue departments with tasks related to the administration of the credits.

The credit for qualifying hotel renovations will be 30% of costs for a LEED-NC Silver certified

hotel and 20% for all others. The credit amount is capped at 5% of the aggregate amount of credits (\$1.250 million). A taxpayer must apply for pre-certification from the Tourism Department prior to the project. A proposal including description, projected costs, dates of the project, and a plan must be submitted with the application. The Tourism Department will determine if the costs likely qualify.

Hotels must have at least 15 rooms. The project cannot be new construction and must restore or renovate at least 40% of the rooms. Qualifying costs include planning, construction, and equipment for the project in amounts that range from \$25,000 to \$40,000 depending on size of the county.

The taxpayer must apply for certification at the Tourism Department within one year of project completion. The Taxation and Revenue Department is charged with annual reporting to relevant committees with a cost analysis.

FISCAL IMPLICATIONS

The administration of the tax credits by the tourism department may require additional FTEs while the credit is in place.

SIGNIFICANT ISSUES

Creating a hotel renovation tax credit could serve several purposes, all potentially beneficial to the tourism industry and the state economy. Primarily, this credit can help to incentivize companies in the hotel space to invest and develop infrastructure in areas where immediate construction incentives are not available. A tax credit for renovation projects (an ongoing need for hotels to remain competitive and often a requirement for franchise hotels) could prove an incentive over time where there is no short-term incentive.

Hotel renovation tax credits could create value for marginal projects in the longer-term, allowing New Mexico to remain attractive and competitive. It is important for traditional lodging to grow along with visitation throughout New Mexico, especially in areas where there is an abundance of short-term rentals. Traditional lodging options can house more visitors, opening local economies.

Studies have found that online reviews and ratings are potential drivers of decision-making for travelers. A 2001 study by Choi and Chu examined the relative importance of hotel factors in relation to travelers' overall satisfaction levels with their hotel stays in Hong Kong and the likelihood of returning to the same hotels in their subsequent trips. In order of importance, staff service quality, room qualities, and value were the 3 most influential factors in determining travelers' overall satisfaction levels and their likelihood of returning to the same hotels.

This bill also incentivizes modernization to sustainable/green standards. The current percentage of New Mexico hotels that meet these standards is unknown.

PERFORMANCE IMPLICATIONS

Tax data collected by the tourism department can provide insight into business development and growth in the lodging sector. Key performance indicators will be put into place to ensure adequate support and outcomes in alignment with the goals of the bill.

ADMINISTRATIVE IMPLICATIONS

Additional FTEs may be necessary to ensure that the directives within Senate bill 243 can be carried out appropriately.

Additionally, NMTD does not currently have administrative infrastructure in place to manage tax credit proposal oversight. In addition to recruiting and hiring qualified tax professionals to oversee the credit qualifications, an increase in burden on current staff is also anticipated, particularly for NMTD's administrative services division and general counsel.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

New Mexico may need to implement other incentive programs to encourage hotel updates to green or sustainable standards.