

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

**October 17-18, 2024
State Capitol, Room 307
Santa Fe**

The fourth meeting of the Revenue Stabilization and Tax Policy Committee for the 2024 interim was called to order by Representative Derrick J. Lente, chair, on Thursday, October 17, 2024, at 9:32 a.m. in Room 307 of the State Capitol in Santa Fe.

Present

Rep. Derrick J. Lente, Chair
Sen. Pete Campos, Vice Chair
Sen. Craig W. Brandt
Rep. Micaela Lara Cadena (10/18)
Rep. Christine Chandler
Rep. Doreen Y. Gallegos (10/18)
Sen. Ron Griggs
Rep. Jason C. Harper (10/18)
Rep. Susan K. Herrera (10/17)
Sen. George K. Muñoz (10/17)
Sen. Harold Pope (10/17)
Rep. Larry R. Scott
Sen. Elizabeth "Liz" Stefanics (10/17)
Sen. Peter Wirth (10/17)

Absent

Sen. William F. Burt
Rep. Mark Duncan
Rep. Linda Serrato

Designees

Rep. Ambrose Castellano (10/18)
Rep. Kristina Ortez
Sen. Shannon D. Pinto (10/18)
Sen. Antoinette Sedillo Lopez

Sen. Katy M. Duhigg
Rep. Joanne J. Ferrary
Rep. Yanira Gurrola
Sen. Antonio Maestas
Rep. Alan T. Martinez
Rep. Rod Montoya
Sen. Gerald Ortiz y Pino
Sen. William E. Sharer

Special Advisory Members

Rep. Cynthia Borrego

Guest Legislator

Rep. Cristina Parajón (10/18)

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

Staff

D. Martin Fischer, Staff Attorney, Legislative Council Service (LCS)

Pam Stokes, Senior Staff Attorney, LCS

Rebecca Griego, Records Officer, LCS

Clinton Turner, Research and Fiscal Policy Analyst, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other 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 17**Welcome and Introductions (9:32 a.m.)**

Representative Lente welcomed members, presenters and those attending in person and on the webcast.

Revenue Volatility Study (9:37 a.m.)

Ismael Torres, chief economist, Legislative Finance Committee, presented an overview of the state's revenue volatility. He addressed actions taken by the legislature to stabilize revenues, including investing certain "excess" oil and gas revenues in the severance tax permanent fund that will provide increased distributions to the general fund in future years. However, improvements to stabilization have been offset by reducing the personal income tax and gross receipts tax rates, cuts that have totaled nearly \$1 billion since 2019 and have made revenue from those taxes more volatile due to heavier reliance on the very volatile oil and gas industry. Issues of concern include the state corporate income tax, which is three times less stable than the national average, as well the state's most volatile revenue source, investments in the state general fund investment pool. Volatility from these sources could significantly increase or decrease with little to no warning. However, Mr. Torres did offer some options to reduce uncertainty, including predictable distributions from the permanent funds, using highly volatile revenues for one-time uses, exercising fiscal restraint and maintaining adequate reserves. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=1>.

Revenue Stabilization (10:43 a.m.)

Airlie Loiaconi, manager, The Pew Charitable Trusts, offered fiscal management best practices for states to consider, such as the creation of rainy day trust funds with deposits and withdrawals that should be tied to volatility; long-term budget assessments to address structural deficits and project budget balances for at least three fiscal years; and the regular performance of budget stress tests to identify possible scenarios that could cause stress to budgets. Ms. Loiaconi outlined how New Mexico has implemented each of these practices. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=2>.

Approval of Minutes (11:27 a.m.)

On a motion duly made, the minutes of the August 23, 2024 and September 23-24, 2024 meetings were approved without changes.

Diversification of Revenue from State Lands and an Examination of Oil and Gas Royalty Rates (1:11 p.m.)

Sunalei Stewart, deputy commissioner of operations, State Land Office (SLO), provided an overview of state land ownership and the revenue it has generated for the state. Mr. Stewart also summarized recommendations from a report from Headwaters Economics commissioned by the SLO that includes expanding renewable energy, pursuing commercial development opportunities, growing outdoor recreation and increasing the oil and gas royalty rate. The report includes a proposal to increase oil and gas royalty rates during the upcoming legislative session. Mr. Stewart explained that the proposal is to increase the top rate from 20% to 25% for new leases only, and only on the best tracts. The fiscal impact of such a change would generate \$50 to \$84 million per year in increased royalty earnings, an increase of up to \$2 billion in the value of the land grant permanent funds by 2050 and up to \$1.3 billion more in cumulative distributions by 2050. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=3>.

Diversifying Revenue on State Lands (2:46 p.m.)

Mark Haggerty, senior fellow, Energy and Environment, Center for American Progress, was lead author of the Headwaters Economics report and was invited to share the findings of that report; however, due to technical difficulties, his presentation was not completed. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=4>.

Proposal for a Volunteer Firefighter and Emergency Medical Services Income Tax Credit (2:59 p.m.)

Senator Stefanics discussed a proposal that would create a \$1,000 income tax credit for volunteer first responders, including firefighters, emergency medical technicians and rescue

personnel, to encourage recruitment and retention of volunteer first responders, especially in rural areas of the state. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=5>.

Recess

The meeting recessed at 3:17 p.m.

Friday, October 18

Liquor Excise Tax, Cigarette Tax and Tobacco Products Tax (9:34 a.m.)

Mark Chaiken, tax policy director, Taxation and Revenue Department (Tax & Rev), explained the types of excise taxes New Mexico imposes but focused primarily on the imposition, rates, annual revenues and distributions of the liquor excise tax, cigarette tax, tobacco products tax and cannabis tax. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=6>.

Proposals for Cleanup of the Tax Code (10:00 a.m.)

Due to time constraints, the presentation by Stephanie Schardin Clarke, secretary, Tax & Rev, and Mr. Chaiken was moved to earlier in the agenda. Ms. Schardin Clarke and Mr. Chaiken presented two legislative proposals as tax code cleanup. The proposals include changes to update outdated provisions of Chapter 7 NMSA 1978, also known as the Tax Code, but the changes would also include amending certain statutes to conform with destination sourcing; increasing the amount of installment agreements, abatements, refunds and credits that will be made available for public inspection; removing reporting requirements for tax expenditures; removing contingent rates for the Petroleum Products Loading Fee; providing that local option tax rates have to be effective on July 1; streamlining advance payments of certain oil and gas taxes; and clarifying the application of certain oil production taxes on skim oil. The presentation materials and proposals can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=10>.

Effects of Alcohol and Modifying Behavior Through Tax Policy (11:10 a.m.)

David Jernigan, Ph.D., professor, Department of Health Law, Policy and Management, Boston University, presented data on the health effects of alcohol, including that it is causally related to more than 200 disease and injury conditions, it is responsible for approximately 2.6 million deaths per year and harms from alcohol are greatest in higher-income countries. He stated that New Mexico leads the country in alcohol-induced deaths and that the state's alcohol-related death rate increased by 31% from 2019 to 2021. Brady Horn, Ph.D., associate professor, Department of Economics, University of New Mexico, presented on the economic impact of alcohol taxes. He argued that while there are economic benefits to alcohol — people enjoy it, and there are economic development benefits for local industry — it has considerable economic costs, including a close relationship with crime, domestic violence and reduced work

performance. His research shows that alcohol taxes will reduce consumption, which will lead to reduced negative societal incomes, such as crime and alcohol-related fatalities. While taxes on alcohol are relatively low in New Mexico, especially on smaller manufacturers, a 25-cent-per-drink tax on alcohol could generate \$130 million per year. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=7>.

Modernizing New Mexico's Approach to Taxing Alcohol (12:25 p.m.)

Representative Cadena and Representative Parajón presented a proposal to significantly change how New Mexico taxes alcohol. The current tax is \$1.60 per liter of spirits, \$0.45 per liter of wine and \$0.41 per gallon of beer, with rate differentials for smaller manufacturers. The proposal is to impose a flat rate of 3% on all sales of alcohol at retail so that the tax would be proportional to the cost or value of the product sold. Revenue from the tax would be distributed as follows: 10% to Indian nations, tribes or pueblos or counties and municipalities that serve significant Native American populations; 40% to all counties based on a formula that would take into account alcohol-related deaths per county; 45% to the Health Care Authority for leveraging Medicaid programs; 5% to drug courts; and \$500,000 for the next five years for research on and an evaluation of alcohol tax policy. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=8>.

Proposal to Increase Taxes on Alcoholic Beverages to Fund an Alcohol Harms Alleviation Fund (12:58 p.m.)

Representative Ferrary; Senator Sedillo Lopez; Senator Pinto; Marlene Lira, president-elect, New Mexico Society of Addiction Medicine; and Sindy Bolanos-Sacoman, owner and chief executive officer, SBS Evaluation and Program Development Specialists, LLC, also made a proposal to change New Mexico's liquor excise tax. Their research shows that modestly reducing alcohol intake is associated with improved health and that even while New Mexico leads the country in alcohol-related mortality, the rate in New Mexico is increasing. The World Health Organization recommends taxing alcohol to create healthier populations, and the Health Care Authority recommends increasing alcohol taxes to reduce alcohol-related harm. The proposal is to adjust existing rates on larger manufacturers for inflation that has occurred since 1994 and impose a temporary surtax equivalent to \$0.20 per drink on all manufacturers. The presenters argued that the proposal would decrease alcohol consumption by 5% to 10% and collect \$200 million to \$250 million annually to stabilize funding and bolster public health investments for prevention of excessive alcohol use and treatment of alcohol use disorder and related harms. The presentation materials and proposal can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/17/2024&ItemNumber=9>.

Adjournment

There being no further business before the committee, the meeting adjourned at 1:32 p.m.