

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

**August 23, 2024
State Capitol, Room 307
Santa Fe**

The second meeting of the Revenue Stabilization and Tax Policy Committee for the 2024 interim was called to order by Representative Derrick J. Lente, chair, on Friday, August 23, 2024, at 8:36 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
Sen. William F. Burt
Rep. Micaela Lara Cadena
Rep. Christine Chandler
Rep. Doreen Y. Gallegos
Sen. Ron Griggs
Rep. Jason C. Harper
Sen. Harold Pope
Sen. Elizabeth "Liz" Stefanics
Sen. Peter Wirth

Designees

Rep. Joanne J. Ferrary
Rep. Alan T. Martinez (as guest)

Absent

Rep. Mark Duncan
Rep. Susan K. Herrera
Sen. George K. Muñoz
Rep. Larry R. Scott
Rep. Linda Serrato

Rep. Ambrose Castellano
Sen. Katy M. Duhigg
Rep. Yanira Gurrola
Sen. Antonio Maestas
Rep. Rod Montoya
Rep. Kristina Ortez
Sen. Gerald Ortiz y Pino
Sen. Shannon D. Pinto
Sen. Antoinette Sedillo Lopez
Sen. William E. Sharer

Special Advisory Members

Sen. Linda M. López
Sen. Bill Tallman

Staff

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.

Friday, August 23**Welcome and Introductions (8:36 a.m.)**

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

Revenue Forecast (8:41 a.m.)

Stephanie Schardin Clarke, secretary, Taxation and Revenue Department (Tax & Rev); Leonardo Delgado, chief economist, Department of Finance and Administration; and Ismael Torres, chief economist, Legislative Finance Committee (LFC), presented the revenue forecast as developed by the Consensus Revenue Estimating Group. The presentation began with macroeconomic outlooks for New Mexico and the United States and the outlooks for New Mexico's major revenue sources. New Mexico is expected to have moderate continued growth, but New Mexico's growth is expected to be much more moderate than that of the United States economy. Due to recent legislative changes, especially new distributions to the Severance Tax Permanent Fund, investment income has become a driver of growth for the General Fund and is expected to surpass income tax revenue as the state's second largest revenue source. The presenters also introduced a new concept of "total new money". The traditional approach to measuring new money has been to subtract recurring appropriations from total revenues, which worked well when nonrecurring appropriations were a small percentage of the state's budget. However, nonrecurring appropriations as a share of total spending has increased significantly over the years — from 7% in fiscal year 2005 to 27% for the current fiscal year, not including any additional nonrecurring appropriations that the legislature may approve that could bump nonrecurring appropriations to a third of total spending in a single year. Now, total new money will take into account total nonrecurring appropriations already made for the current fiscal year

for a more accurate picture of available budgets. As a result, rather than reporting that there is over \$3 billion in new money available, the more accurate amount is \$659.6 million after subtracting spending made in the prior year. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=8/23/2024&ItemNumber=1>.

Tax Pyramiding Discussion (10:34 a.m.)

Carl Davis, research director, Institute on Taxation and Economic Policy, emphasized that pyramiding in a general sales tax (the gross receipts tax in New Mexico) is common all around the country, not just in New Mexico. He addressed some of the common arguments against taxing business inputs, but explained that no state comes close to exempting business purchases from sales tax and added that the nationwide average of a business's share of sales tax paid from pyramiding is 42%. Exempting business purchases from sales tax involves significant tradeoffs, Mr. Davis said. He provided a comparison of the tradeoffs that outlines neutrality between taxpayers, complexity of administration and compliance and significant revenue impacts, including what the actual rate of tax would need to be (higher with more exemptions, lower with fewer exemptions). Mr. Davis also noted that between 2000 and 2024, 24 states increased their general sales tax rate and 21 states had no change, and New Mexico is the only state that reduced its general sales tax rate. He argued that as economies around the country move from a goods-based economy to a more service-based economy, most states elect not to tax services as New Mexico currently does. As a result, those states increase their rates to address this impact since it is politically difficult to impose new taxes on services. New Mexico is ahead of the game on that front due to the broad base of the gross receipts tax that is imposed on most services. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=8/23/2024&ItemNumber=2>.

New Mexico Tax Policy Overview (12:41 p.m.)

Secretary Schardin Clarke; Lucinda Sydow, chief economist, Tax & Rev; and Brendon Gray, economist, LFC, provided an overview of New Mexico's tax policy. Fiscal year 2024 revenue sources are composed of sales taxes (32%), a significant share of which is attributed to the oil and gas industry; energy (24%); income taxes (22%); investments (14%); and other revenues (8%). Overviews were also provided of the gross receipts tax and selective sales taxes, income taxes, oil and natural gas taxes and local and tribal taxes. The recently statutorily codified tax expenditure budget was defined, which included the differences between types of tax expenditures and a list of the top 10 2023 tax expenditures in terms of foregone revenue. Changes to tax provisions from legislation passed since 2019 were also described, as well as how some of those changes have improved tax progressivity in New Mexico. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=8/23/2024&ItemNumber=3>.

How New Mexico Funds Transportation Infrastructure: Tax Distributions to the State Road Fund and a Comparison to Other States (1:49 p.m.)

Ricky Serna, secretary, Department of Transportation (DOT), and Michael Morrison, chief economist, DOT, presented information on road and bridge conditions in New Mexico and gave an overview of taxes and fees distributed to the State Road Fund and how the DOT is funded. Included was a long-term forecast for the State Road Fund, the increasing costs of road construction and the challenges for providing needed funds for the State Road Fund. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=8/23/2024&ItemNumber=4>.

Approval of Minutes

On a motion duly made and seconded, the minutes of the May 31, 2024 meeting were approved without changes.

Adjournment

There being no further business before the committee, the meeting adjourned at 2:45 p.m.