# MINUTES
## of the
## SIXTH MEETING
## of the
## REVENUE STABILIZATION AND TAX POLICY COMMITTEE

**December 11-13, 2017**
**State Capitol, Room 322**
**Santa Fe**

The sixth meeting of the Revenue Stabilization and Tax Policy Committee for the 2017 interim was called to order by Senator Carlos R. Cisneros, chair, on Monday, December 11, 2017, at 9:59 a.m. in Room 322 of the State Capitol in Santa Fe.

**Present**
Sen. Carlos R. Cisneros, Chair
Rep. Sharon Clahchischilliage
Rep. Roberto "Bobby" J. Gonzales
Rep. Jason C. Harper
Sen. Gay G. Kernan
Rep. Antonio Maestas
Rep. Javier Martínez
Sen. Mark Moores
Sen. George K. Munoz (12/11, 12/12)
Sen. Clemente Sanchez
Sen. William E. Sharer
Sen. John Arthur Smith
Rep. James R.J. Strickler
Rep. Carl Trujillo (12/11, 12/12)
Sen. Peter Wirth

**Absent**
Rep. Jim R. Trujillo, Vice Chair
Rep. Tim D. Lewis
Sen. James P. White

**Designees**
Rep. Eliseo Lee Alcon (attending as a guest 12/11, 12/12)
Rep. Cathrynn N. Brown (attending as a guest 12/13)
Sen. William F. Burt
Rep. Bill McCamley (attending as a guest 12/12)
Rep. Rod Montoya
Rep. Patricio Ruiloba (attending as a guest)
Rep. Larry R. Scott (attending as a guest 12/11)
Sen. Bill Tallman (attending as a guest 12/11, 12/12)

Rep. David E. Adkins
Sen. Jacob R. Candelaria
Rep. Daymon Ely
Rep. Bealquin Bill Gomez
Rep. Debbie A. Rodella
Sen. Nancy Rodriguez
Rep. Patricia Roybal Caballero
Rep. Angelica Rubio
Rep. Tomás E. Salazar
Rep. Nathan P. Small
Sen. Elizabeth "Liz" Stefanics
Rep. Candie G. Sweetser
Sen. Pat Woods

**Guest Legislators**
Sen. Pete Campos
Rep. D. Wonda Johnson (12/12, 12/13)
Rep. Patricia A. Lundstrom (12/13)
Sen. Richard C. Martinez
Rep. Jane E. Powdrell-Culbert (12/11)
Rep. Linda M. Trujillo (12/12, 12/13)

(Attendance dates are noted for members who did not attend the entire meeting.)

**Staff**
Pam Stokes, Staff Attorney, Legislative Council Service (LCS)
Ric Gaudet, Researcher, LCS
Sara Wiedmaier, Intern, LCS

**Minutes Approval**
Because the committee will not meet again this year, the minutes for this meeting have not been officially approved by the committee.

**Guests**
The guest list is in the meeting file.

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

**Monday, December 11**

**Transferring the Collection of the Premium Tax from the Office of Superintendent of Insurance (OSI) to the Taxation and Revenue Department (TRD)**
Vicente Vargas, general counsel, OSI, and Ron Scott, director, Audit and Compliance Division, TRD, gave a progress report to the committee about proposed legislation and planning for the transfer of responsibilities of administering the premium tax from the OSI to the TRD. In 2016, the Legislative Finance Committee (LFC) recommended that administration of the premium tax be transferred to the TRD. Legislation during the 2017 regular legislative session failed to pass, but a provision in the General Appropriation Act of 2017 directed the agencies to develop a plan to implement the transfer. The OSI and TRD recently met and are developing legislation to effect the transfer. The TRD would collect and distribute the revenues and administer the audit, protest and penalty process through the Tax Administration Act. In addition, the TRD would administer the collection of taxes paid by out-of-state insurers, also called surplus lines insurers.

The TRD has estimated the initial transition costs as well as recurring operating costs of administration of the premium tax. The department will need an additional 30 staff to administer the tax program, with an annual operating expense of approximately $2.2 million. Some staff at the OSI would be transferred to the TRD. Initial implementation costs are estimated, at the high end, to be $3.9 million. That cost estimate includes approximately $3 million for new software that would incorporate the premium tax system into the TRD's GenTax system. Another lower estimate of approximately $1.2 million was given in case the current OSI system of premium tax administration could be modified to fit within the GenTax system. However, it is still not clear whether that is possible.

Questions and comments from committee members included the following.

- Does the OSI have any entity that oversees its operations? Mr. Vargas said that there is no direct oversight of the OSI. However, the Insurance Nominating Committee has the power to hire and fire the superintendent of insurance.

- Insurance companies should understand all of the implications from transferring administration of the premium tax to the TRD. There might be some unintended consequences from the transfer.

- The same people who missed out on millions of dollars of premium tax underpayments should not be transferred to the TRD to oversee the same tax program. Mr. Vargas said that staff at the OSI were not at fault. The problem was that the process was not fully defined, which meant that taxes were not fully assessed.

- Is there really a need to transfer the administration of the premium tax to the TRD, especially in light of the improvements made to the system recently by the OSI?

**Observations on Tax Reform in New Mexico**

Tom Clifford, Ph.D., discussed with the committee one possible approach to tax reform in New Mexico. States periodically need to restructure their tax systems, due to piecemeal enactment of overlapping and sometimes contradictory tax policies and due to economic, demographic and technological changes. The rise of e-commerce, the state's decreased reliance on manufacturing, the aging of the population, interstate competition for economic development and fluctuations in the oil and gas industry have all contributed to the need to revise New Mexico's tax system. Dr. Clifford cautioned that if policymakers insist that tax reform be revenue neutral, they may be limiting the potential for positive change in the economy. However, any tax reform effort will create winners and losers, making it more difficult politically to accomplish.

Revenue adequacy for budget purposes is the main, but not the only, purpose of tax policy. Taxes also are used as incentives to behavior, which sometimes competes with the goal of adequacy. The governmental share of the United States economy has remained around 35 percent for the past few decades. However, as social insurance programs, such as health care, grow more expensive, other programs, such as education, face pressure to be reduced. In New Mexico, the state has lower than average capacity to produce adequate revenues, yet it has spent more money than average, mostly due to federal transfers for health care and education. General

Fund revenue as a percentage of New Mexico's gross state product has tended to remain stable at between six percent and seven percent.

New Mexico relies more heavily on sales taxes than other states and has much lower property tax rates than most states. The state does not receive any General Fund property tax revenue, and local property tax rates are limited constitutionally. This imbalance costs New Mexico businesses an average of $1.4 billion extra annually, compared to the national average. Although economists tend to agree that taxing consumption is better for the economy than taxing income because it encourages saving, this effect is much weaker in a small open economy like New Mexico. In addition, New Mexico's gross receipts tax (GRT) imposes a higher level of business-to-business taxation, which results in economic distortions.

Dr. Clifford suggested that policymakers consider allowing for higher property taxes and lowering GRT rates as a long-term approach to maintaining revenue adequacy. Property taxes tend to be used by local governments in providing services to residents and thus resemble user fees. The supply of real property is also relatively insensitive to the rate of taxation and is less regressive than other forms of taxation. Property tax revenue is also more stable than revenue from General Fund taxes, meaning it could provide a hedge against recession. The current heavy reliance on GRT revenue is difficult to fix without a different revenue source, and there is still plenty of room for property tax rates to grow. This change would reduce the overall regressivity of New Mexico's tax structure while contributing to a more sustainable revenue stream to fund state and local governments.

Questions and comments from committee members included the following.

- Deeded property in New Mexico only accounts for one-third of the total land in the state. Residential property values have declined by more than 30 percent in the past decade and are only beginning to increase. Industrial revenue bonds have also severely reduced the property tax base. There may not be enough deeded property and value to rely more heavily on a property tax. Finally, getting voters to pass a constitutional amendment to allow for more than a 20-mill property tax rate would be nothing short of miraculous.

- In San Juan County, only six percent of the land is deeded. Counties rely on the GRT to provide operating revenues, and many counties could not switch to a property-tax-based revenue stream. If the GRT deduction for food purchases were repealed, while still providing for some relief for low-income consumers, much of the revenue stability problem would be solved.

**Annual Report: Laboratory Partnership with Small Business Tax Credit**

Micheline Devaurs, manager, Market Transition Program, Los Alamos National Laboratory; Genaro Montoya, program leader, New Mexico Small Business Assistance Program, Sandia National Laboratories; and David Old, president, Old Wood, reported to the committee on the activities of the laboratories in assisting small businesses across the state. The GRT credit is granted in an amount up to $2.4 million annually for each laboratory for technical assistance it provides to small businesses during the year. Up to $20,000 annually in technical assistance may be provided to a company located in a rural area. Since its inception in 2000, the program has provided more than $53 million in technical assistance to more than 2,600 businesses in every county. In 2017, about 345 businesses were expected to receive assistance.

Mr. Old described his company and the assistance it received. Old Wood, located in Las Vegas, manufactures wood flooring from sustainably harvested trees in New Mexico. The company recently began selling pinon firewood around the world, and it received assistance from the New Mexico Manufacturing Extension Partnership (MEP) to streamline production. The MEP used "lean" manufacturing principles to completely redesign the firewood portion of the business, including purchasing, wood preparation, packaging, storage and shipping. The company has also received assistance on various aspects of its flooring manufacturing business. Mr. Old said that the company is currently working on a new product that turns wood into carpeting replacement.

Questions and comments from committee members included the following.

- Old Wood has been a tremendous benefit to San Miguel County's economy. It is difficult to quantify the return on investment of the tax credit and assistance program, but many thousands of new jobs have been created.

**Report: Public Employees Pension Fund Solvency**

Wayne Propst, executive director, Public Employees Retirement Association (PERA); Dominic Garcia, chief investment officer, PERA; and John Garrett, principal and consulting actuary, Cavanaugh Macdonald Consulting, LLC, gave an update to the committee about the solvency of the PERA's pension funds. In the past 20 years, the ability of pension funds nationwide to achieve targeted investment returns has been much more difficult. Investing a large portion of a fund in bonds and cash instruments used to provide sufficient income to provide for pension fund solvency, but that situation is no longer true. Bonds and cash have performed much lower than the PERA's target of 7.5 percent, making stocks and other types of investment necessary.

The PERA fund balance was $15.3 billion at the end of September and returned 11.1 percent in fiscal year 2017. Slightly more than $1 billion in pensions was paid during that year. At the end of fiscal year 2017, the funded ratio of the PERA pension program was 74.9 percent, and it was projected to have a funded ratio of 87.6 percent by 2043. This is a slight increase from the previous year but much lower than the projected ratios from 2013-2015. Separated into pension categories, the state general plans and municipal fire plans will be severely underfunded by 2043, while the state police, municipal general and municipal police plans will be more than 100 percent funded. Of the $20.2 billion of actuarial accrued liability the plans have, about two-thirds is allocated to retirees and one-third is allocated to active members.

The PERA performed analyses of the funded ratio of the pension plans based on various potential scenarios to demonstrate the impact of investment volatility. The PERA fund achieved better-than-expected investment returns in 2017, which resulted in the projected funded ratio for 2043 increasing from 2016's estimate of 76.7 percent to 87.6 percent. That one good year of investment returns had a significant impact on future funded ratios. Similarly, if the funds only returned an investment of 3.75 percent in 2019, the 2043 funded ratio would drop to 58.6 percent. The PERA also modeled the pension solvency if a new third pension tier were added that reduced benefit accruals by future public employees with only average investment returns. That model showed the fund solvency at a ratio of more than 100 percent funded. However, that same model would yield a funded ratio of 45.8 percent if investment returns were less than expected. Other theoretical models included suspending annual cost-of-living allowances (COLAs) and replacing COLAs with an annual extra pension payment, each of which showed dramatic changes to the 2043 funded ratio. The modeling was not an endorsement by the PERA board of any changes to retirement plans; it was merely an exercise in demonstrating the impacts on the future funded ratio from potential changes to plans.

Questions and comments from committee members included the following.

- PERA staff were requested to provide the committee with the amount of investments made by the PERA fund in the fossil fuel industry.

- Can plans that are overfunded be used to help fund underfunded plans? Mr. Propst said that the PERA board is currently looking at that possibility.

- Reducing retiree COLAs would have an enormous impact on the solvency of the PERA fund. Mr. Propst said that many pension plans across the country have modified COLA provisions to improve pension plan solvency. He said that the PERA plans cannot become solvent merely by investment returns.

- Why is the municipal fire pension plan so underfunded? Mr. Propst said that the rates and benefits for that plan were set many years ago. Firefighters tend to stay in the same plan their entire careers, and benefits accrue very rapidly under that plan.

**Oil and Gas Equipment Taxes Explained**

Patrick Padilla, deputy director, New Mexico Oil and Gas Association, discussed with the committee the role that the oil and gas industry plays in the state's economy and discussed a recent presentation to the committee about the assessment of oil and gas equipment. The oil and gas industry provides nearly one-third of the state's General Fund revenues and contributes more than $12.8 billion annually to the state's economy. The industry is responsible for creating 105,000 jobs in the state, making it the state's largest driver of private sector employment. Besides producing significant General Fund revenues, the industry also contributes more than $400 million to the Land Grant Permanent Funds and more than $800 million to the Severance Tax Bonding Fund.

The oil and gas industry also pays a significant amount of property taxes and ad valorem taxes in lieu of property taxes, the revenue from which gets distributed to counties. The oil and gas ad valorem production tax and the oil and gas production equipment ad valorem tax are assessed on the value of the oil or gas produced by a well in lieu of regular property taxes used in the production of the oil or gas. These taxes are paid to the TRD. Companies are also subject to the regular property tax imposed by counties and other taxing entities on any other equipment not directly related to the production of oil or gas, such as pipelines and drilling rigs. County assessors and the TRD have special valuation processes to value this equipment.

Mr. Padilla said that Total Assessment Solutions Corporation (TASC) began performing equipment valuations for Eddy County recently, using generally unaccepted methodologies, unreliable data and suspect definitions in order to generate more property tax revenue for the county. He said that the credibility of TASC's audits has been questioned by courts in several states, including Oklahoma, Colorado, Kansas and New Mexico. Eddy County spent $850,000 on a contract with TASC, yet has only received $300,000 in additional tax revenue. Mr. Padilla suggested that the industry work directly with county and TRD assessors and that assessors provide the industry with specific reporting directives to ensure correct reporting of equipment values. Using third-party companies is fiscally imprudent and results in incorrect valuations.

Questions and comments from committee members included the following.

- Some companies are correctly paying property taxes on equipment, but many are not. There is not enough funding at the state and local levels to properly assess property. Mr. Padilla said that equipment used in the production of oil and gas, typically before the meter, is subject to the ad valorem taxes and not to the property tax. Now, a new player is attempting to change the norms that have been used for decades. The industry is willing to work with the state and county assessors to clarify some issues. However, it is usually clear which property is subject to property taxation.

- Did the auditor for TASC use proper methodology and have sufficient information to determine when ad valorem taxation ends and property taxation begins? Mr. Padilla said that information would be very difficult to obtain as an outside entity. He said that some companies that are not involved in transportation of natural gas received a tax bill from Eddy County for equipment used in transportation.

**Recess**

The committee recessed at 3:45 p.m.

**<u>Tuesday, December 12</u>**

The committee was reconvened by Senator Cisneros on Tuesday, December 12, 2017, at 9:04 a.m.

**Update on Federal Tax Reform**

Richard Anklam, president and executive director, New Mexico Tax Research Institute, provided an update to the committee on pending federal legislation to reform the federal tax code. He said that he had hoped to be able to present the final tax reform package to the committee; however, the legislation was still in conference, and no final package had been announced. He predicted that most of the senate version would end up in the final legislation. He said that due to the elimination of personal exemptions found in both versions, many New Mexicans with more than one dependent will pay higher state personal income taxes (PIT). Changes to business taxes, including for pass-through entities and corporations, will likely reduce those entities' state taxes. The TRD will need to perform an analysis of the final tax legislation to determine exactly how the legislation will affect state revenues.

Questions and comments from committee members included the following.

- What would the impacts on New Mexico be if the federal "PAYGO" sequestration rules are triggered? Jon Clark, chief economist, LFC, said that Medicare and Medicaid funding could be cut, as well as the $470 million the state currently receives from federal mineral leasing receipts, if the sequestration rules are triggered.

- What will happen to the alternative minimum tax under the proposed legislation? Mr. Anklam said that both the house and senate versions eliminate that tax for individuals.

- The legislature may need to make changes to New Mexico tax statutes during the upcoming legislative session in order to avoid unintentional tax increases. There will be winners and losers in New Mexico from the federal legislation.

- What provisions are in the tax legislation that affect small businesses? Mr. Anklam said that besides the cuts to tax rates, small businesses will also be able to take advantage of the immediate expensing of equipment, rather than being required to depreciate it.

**Revenue Forecast**

Clinton Turner, chief economist, Department of Finance and Administration, Mr. Clark and John Monforte, acting secretary, TRD, presented the Consensus Revenue Estimating Group's (CREG's) revenue forecast. Mr. Turner said that fiscal year 2018 and 2019 revenues are expected to grow by more than three percent, resulting in $199 million in "new money" available for fiscal year 2019 budgeting. Despite the good revenue news, New Mexico's economy is expected to continue to grow slowly, and there remains a modest chance of the nation entering a recession. Due to the volatility of the state's revenue sources, New Mexico should target a minimum of 10 percent reserves annually. If current trends for fiscal year 2018 continue, the state reserve levels are projected to be nine percent at the end of the fiscal year.

The United States' gross domestic product is expected to continue growing at a rate of between two and three percent for the next few years, and inflation is expected to return to long-term averages above two percent. The Board of Governors of the Federal Reserve System is expected to continue increasing lending rates in 2018 at a measured pace. New Mexico employment levels are growing slowly and are expected to increase by one percent annually for the next few years. Southeastern New Mexico has seen rapid employment growth recently, due to the booming oil and gas industry. New Mexico's rig count reached 73, the highest level in several years. Mr. Turner said that the rig count is a good predictor of revenues two months in the future.

Acting Secretary Monforte discussed major revenue streams for the state and also discussed risks to those revenue streams. New Mexico's economy has been subject to outside forces beyond the control of state policymakers. The recent upswing in the oil and gas sector and the recent federal Medicaid expansion have kept the state's economy afloat for the past several years. Increased revenues from selective sales taxes and royalty payments have contributed to the short-term strength of the state's revenues. Some of the increased oil and gas revenue will be diverted to the Tax Stabilization Reserve beginning in 2020, in an attempt to offset the volatile nature of that industry. There is still substantial risk to state revenues from ongoing tax protests and unknown impacts on corporate income tax and PIT revenues from federal tax reform.

Mr. Clark discussed recent revenue gains the state has seen. Although the General Fund is expected to have $199 million more in fiscal year 2019, the recent fiscal crisis the state experienced meant that agency budgets were cut, and many agency funds were depleted to help shore up the state's fiscal situation. Many state agencies have requested budget increases for fiscal year 2019 to close many operational funding gaps. The added spending needs, coupled with the various revenue risks the state is facing, mean that the CREG is only cautiously optimistic about the state's future outlook.

Questions and comments from committee members included the following.

- The credit rating agency Moody's recommended that New Mexico's reserve level be set at 17 percent to guard against a recession because the state is so reliant on the oil and gas industry. Mr. Turner said that the state could lose hundreds of millions of dollars just from current tax protests. There does not need to be a recession for the state to use up all of its reserves.

- What is the status of the tax payment identification problems associated with the 60-day suspense fund? Acting Secretary Monforte said that most of the mystery payments from the previous fiscal year have been resolved. The TRD is establishing protocols to resolve misreported tax payments more quickly.

- Proposed federal tax changes mean that New Mexico may see major declines in health care revenues from the federal government.

- What accounts for the expected slower growth in fiscal years 2020 and 2021? Acting Secretary Monforte said that the Tax Stabilization Reserve will be getting excess oil and gas revenue as a result of legislation enacted in 2017. In addition, federal law will preempt the taxation of internet service, which will impact state and local revenues.

**Report on Tax Study**

Andrew Phillips, principal, Quantitative Economics and Statistics Group (QUEST), Ernst & Young LLP (EY); and Caroline Sallee, senior manager, QUEST, EY, presented a preliminary report on tax modeling software that EY is developing for the legislature. EY was commissioned by the LCS to develop modeling software that would undertake an analysis of the degree of pyramiding in the GRT, analyze the distributional impacts of various tax changes on households and businesses and assess the strengths and weaknesses of the state's tax system. The project models the GRT and PIT systems; however, the PIT model is still being developed. The completed project is expected to be delivered to the state in January 2018.

The GRT model is based on the TRD's RP-80 data from fiscal year 2016. That data was standardized to align with the North American Industry Classification System, in order to compare the state's data with other national data. As more state data becomes available, the model can be easily updated. The model is able to track gross receipts, amount of deductions, GRT imposed, deductions as a percentage of gross receipts and exemptions for each industry and then calculate the impact on changes to any aspect of the GRT system. The program can then model situations in which various components of the GRT system are being modified, showing the impacts on the tax base, tax revenue and a new tax rate to make the policy change revenue neutral. The presenters discussed a few hypothetical scenarios and the industry-by-industry impact those changes would have.

The tax program being developed by EY also models the extent of GRT pyramiding. Using national data, the model estimated industry output of various sectors, without any tax in the system, and then used effective tax rates for each industry in New Mexico to model the resulting output. The model estimated that nearly 61 percent of the entire GRT revenue was a result of business-to-business pyramiding. Some industries had much higher levels of pyramiding, such as information, public administration, finance and insurance and management of companies.

The final part of the tax modeling software is a tool to model the PIT system and how changes would impact revenues. This model was not yet finished to be able to provide a demonstration to the committee. The model will be able to simulate effects of bracket and rate changes, exemptions, deductions and credits.

Questions and comments from committee members included the following.

- Will EY be providing policy recommendations with the tax tool? Mr. Phillips said that the tool will be able to analyze proposed changes, along with strengths and weaknesses of the proposals. However, policy decisions are for the legislature to contemplate.

- Does the tax model have a local modeling component? Mr. Phillips said that the model is only able to provide information at the state level. Modeling impacts of tax changes on local governments would be a much bigger project.

- Tax reform in New Mexico needs to happen all at once. Otherwise, it will never happen. The GRT rate could be greatly reduced and the base vastly expanded by repealing most deductions and exemptions, including the exemption for wages. This kind of reform would benefit most New Mexicans.

- The health care deductions allowed in the GRT system were enacted because most insurance companies and the Medicare system do not allow for taxes on health care services to be reimbursable.

- Nonprofit organizations strongly opposed legislation in 2017 that would eliminate the exemption from the GRT for sales made by those organizations. No other state imposes a sales tax on nonprofit organizations.

**Recess**

The committee recessed at 3:20 p.m.

**Wednesday, December 13**

The committee was reconvened by Senator Cisneros on Wednesday, December 13, 2017, at 9:00 a.m.

**House Memorial 72 (2017) Report: Recognizing an Opportunity for Growth Presented by the Escalante Generating Station in Prewitt, New Mexico**

Jeff Kiely, executive director, Northwest New Mexico Council of Governments; Michael Sage, deputy director, Greater Gallup Economic Development Corporation; Eileen Yarborough, executive director, Cibola Communities Economic Development Foundation; and Rhonda Mitchell, Tri-State Generation and Transmission Association, discussed with the committee ongoing economic development planning efforts related to the coal-fired Escalante Generating Station in Prewitt. The generating station is an economic hub for the area, providing more than 500 direct and indirect jobs with an annual payroll of $133 million. House Memorial 72 in 2017 encouraged economic development organizations in the region to develop a plan to maximize economic benefits from the plant by encouraging other industries to co-locate at the facility and by providing workforce development opportunities. Currently, the generating station has 119 employees and pays $1.4 million in property taxes. The plant also sells steam, water and electricity to the McKinley Paper Company located on the campus. The plant uses coal currently being mined from El Segundo Mine, which has 240 employees. Lee Ranch Mine has been closed for several years, and El Segundo Mine laid off more than 100 workers in 2016.

The coalition of economic development groups has cooperated in developing initial plans to mitigate the eventual loss of the coal industry by performing a supply chain analysis, workforce skills assessment and target industry report, which will be brought together into a site master plan. The coalition has been working on the plan since October 2015 and anticipates having a final plan in July 2018. The plan will recognize the Escalante Generating Station as an economic base employer for Cibola and McKinley counties and as an anchor tenant for the Prewitt industrial center; recognize the industrial center as a key pillar for the economies of the counties; provide for proactive local, regional and state leadership based on the public-private partnership model; integrate federal and state efforts for maximum efficiency; and incorporate best practices by drawing on economic development and community planning principles.

Questions and comments from committee members included the following.

- It is important to get ahead of the eventual closure of the Escalante Generating Station to provide for other businesses and employment opportunities.

- San Juan County is facing a similar situation with the closing of its coal-fired generating stations, except the economic impact will be enormous. The county has already lost 7,000 jobs due to changes in the oil and gas sector, and the loss of another 1,300 jobs will be devastating.

- The Raton area was devastated 70 years ago when coal mines in that region closed. It is important that communities plan for the transition away from coal. The entire state will eventually be impacted by the loss of coal-related jobs.

- A large segment of the population has an irrational hatred of coal. When the Desert Rock coal-fired power plant was proposed, which included the ability to capture 96 percent of the carbon used to produce electricity, the proposal was fought and defeated by environmental groups.

- The coal industry fueled the Industrial Revolution. Coal is heavily taxed, but most renewable energy pays no taxes at all.

**Proposals for Committee Endorsement**

The committee discussed four bills for possible endorsement by the committee.

1) <u>Nontaxable Transaction Certificate (NTTC) Alternative Evidence (.208748.3).</u> The legislation would allow GRT taxpayers to present evidence other than an NTTC to prove that the taxpayer is eligible to receive a deduction from gross receipts. This would allow taxpayers to provide evidence to the TRD to allow for a deduction, which, under current law, does not allow for the deduction unless the taxpayer has in its possession an NTTC from the purchaser. The committee endorsed the proposal, with Representatives Jason C. Harper and Carl Trujillo to sponsor.

2) Liquor Excise Tax Distribution Increase to the Local DWI Grant Fund (.209011.1). The legislation would make permanent a 2015 increase of liquor excise tax revenue distributions to the Local DWI Grant Fund from 41 percent to 46 percent. The bill would also distribute five percent of tax revenue to the newly created Drug Court Fund. The committee endorsed the bill, with Representative Carl Trujillo to sponsor.

3) Tax Cleanup and Reporting Requirements (.209172.2). The bill, which Senator Cisneros said that he was not seeking committee endorsement of, would require certain tax expenditure recipients to file separately when claiming the expenditure; would allow the disclosure of certain taxpayer information relating to tax expenditures; would allow LFC economists to receive confidential taxpayer information from the TRD; would exclude certain nonprofit entities from receiving a GRT exemption; and would narrow the premium tax in lieu provision.

4) Compensating Tax Changes and Tax Code Cleanup (.209099.3). The bill, which Representative Harper said that he was not seeking committee endorsement of, would impose the compensating tax at the same rate as the GRT; would impose local compensating taxes; and would repeal certain tax credits and deductions that have expired or are seldom used.

**Adjournment**

There being no further business, the committee adjourned at 10:50 a.m.