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FISCAL IMPACT REPORT

ORIGINAL DATE 2/01/18

SPONSOR Burt/Griggs LAST UPDATED _____ HB _____

SHORT TITLE Aircraft Training Construction Gross Receipts SB 99

ANALYST Graeser

REVENUE (dollars in thousands)

| Estimated Revenue | | | | | Recurring or Nonrecurring | Fund Affected |
|-------------------|-----------|-----------|-----------|-----------|------------------------------|------------------|
| FY18 | FY19 | FY20 | FY21 | FY22 | | |
| | \$(160.0) | \$(160.0) | \$(160.0) | \$(160.0) | Nonrecurring | General Fund |
| | \$(40.0) | \$(40.0) | \$(40.0) | \$(40.0) | Nonrecurring | Otero County |

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY18 | FY19 | FY20 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|------|------------------------------------|------|----------------------|------------------------------|------------------|
| Total | | See Administrative Implications | | | | |

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 99 allows for a deduction from gross receipts tax (GRT) for construction services to implement a fighter aircraft pilot training mission project at New Mexico military installation pursuant to contracts entered into with the United States Department of Defense. The military installation must be located in a class B county with a population greater than sixty thousand people according to the most recent federal decennial census. The deduction can be claimed after July 1, 2018 until July 1, 2022. The deduction is required to be separately reported. The Taxation and Revenue Department (TRD) is required to compile an annual report and present the findings to the specified legislative committees.

The effective date of this bill is July 1, 2018. The delayed repeal date of this bill is not explicit, however the deduction is only valid for receipts incurred prior to July 1, 2022.

FISCAL IMPLICATIONS

As determined by the Holloman base civil engineering division, the physical facilities required to implement the F-16 training mission at Holloman Airbase in Alamogordo are estimated to cost \$15.4 million over a five-year period. These costs are shown as spread equally over a five-year period, but are classified as nonrecurring. The facilities will be located outside the Alamogordo municipal limits and would be subject to the 5.125 percent state GRT rate and a 1.1875 percent Otero County Rate. The estimate in the table includes the impact of a 3.25 percent administrative fee imposed on distributions to counties and municipalities.

Further testimony indicates that an additional 50 to 100 aircraft would be relocated to Holloman to implement the training mission. Up to 1,000 new jobs/new families would relocate to Alamogordo as part of this new mission.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures can be difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures. On the other hand, this deduction is constrained geographically and there will be only one payor – the U.S. Airforce. The sponsor of this bill has indicated a willingness to update the legislature each year that the deduction is in place and report directly or indirectly through TRD the costs and benefits of this deduction in terms of jobs, wages, retail sales and other pertinent economic and demographic variables.

SIGNIFICANT ISSUES

Sponsor testimony indicates that the mission and the buildings and other facilities needed to implement the training mission are currently in Holloman's capital plan. However, the mission is classified as temporary. The aircraft needed for this training mission cannot be called into service for an active military mission. The major purpose of this deduction is to allow the mission to be reclassified from temporary to permanent.

There are five current Class B Counties with population over 60,000. These are Chaves, Lea, McKinley, Otero and Valencia. Of these five, only Otero has an airbase.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose. In previous testimony, TRD asserts that separate reporting, without a penalty for failure to report

properly, may be ineffective. In this case, the scope of the deduction is such that there will be relatively few contractors reporting the deduction and the amount of the deduction will be tied directly to the gross receipts foregone. Without local assistance, TRD would have no means of determining or reporting the benefits attributed to this deduction.

ADMINISTRATIVE IMPLICATIONS

TRD notes, "... The proposed deduction would require changes to forms, instructions, reconfiguration of the GenTax system and the creation of a new deduction code. Additional education for staff and taxpayers will need to take place. The estimated administrative cost associated is of approximately 200 work-hours or \$14 thousand in employee time and effort."

In many similar circumstances, TRD notes that the work would be accomplished in the regular six-month GRT update cycle without any additional impact on operating budget.

OTHER SUBSTANTIVE ISSUES

TRD notes the following: "The deduction may be subject to the financial statement disclosure requirements per GASB Statement No. 77. An assessment of the deduction against the tax abatement criteria specified in GASB 77 would need to be performed to determine if the deduction meets the criteria. If it does meet the criteria, the abatement may need to be disclosed in the notes to the Department's financial statements or elsewhere as directed by the State Controller."

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Sponsor's testimony indicates that the purpose of the bill is to convert the training mission from a "temporary" status at Holloman to a permanent status.

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate

"Adequacy" is difficult to determine for this deduction. In the short term, this bill does impose costs on the General Fund and Otero County. However, if all goes as planned, over 1,000 jobs/families would relocate to Otero County. Longer term gross receipts taxes, income taxes, property taxes would almost certainly exceed the short term costs of the deduction.

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **Vetted:** The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted:** The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent:** The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable:** The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective:** The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

Most, if not all, of these criteria have been met. The issue was presented to RSTPC during the interim. There is a clearly stated and measureable long term goals. The costs and benefits will be reported directly or indirectly by TRD. The deduction is effective for a relatively short period of time and the revenue costs are non-recurring. The deduction is required to convert the status of the training mission from temporary to permanent and is a very low cost means of achieving the desired results.

LG/jle/sb