F I S C A L I M P A C T R E P O R T

SPONSOR Stewart/McQueen **ORIGINAL DATE** 1/26/2020 **LAST UPDATED** 2/15/2020 **HB**

SHORT TITLE Solar Market Development Income Tax Credit **SB** 29/a SFC

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22	FY23	FY24		
	(3,870.0) to (7,000.0)	(3,960.0) to (7,500.0)	(3,500.0) to (7,500.0)	(3,4300.0) to (7,500.0)	Recurring	General Fund (PIT)
	This bill does not change taxability of solar systems in new homes or existing homes.					General Fund and Local Governments (GRT)
	This bill does not change property tax values: solar systems on new homes are valued at cost; systems on existing homes are not valued.					Property tax beneficiaries: State GO bond fund, public schools, others

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	37.0	37.0	74.0	Recurring	General Fund

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From
Energy, Minerals and Natural Resources Department (EMNRD)
Taxation and Revenue Department (TRD) on 2019's SB-39
Economic Development Department (EDD)

SUMMARY

Synopsis of SFC Amendment

Senate Finance Committee amendment to Senate Bill 19 makes the following changes:

- Changes the start date and shortens the sunset date of the credit from 2030 to 2028, thus allowing the credit for systems installed from March 1, 2020 to December 31, 2027.
- Clarifies that taxpayers can claim credits for every year in which solar equipment is installed on their homes.
- Reassigns responsibility for tracking and enforcing the annual $8 million cap to the Energy, Minerals and Natural Resources Department (EMNRD).
- Apparently reiterates the provision that if applications to EMNRD exceed the $8 million cap in any year, those excess claims are extinguished without rollover provisions. The bill is silent on whether taxpayers denied a credit because of the cap may reapply the following year, although Section 1 (F) indicates that the taxpayer must claim the tax credit for the taxable year in which the taxpayer purchases and installs the solar system.

Synopsis of Original Bill

Senate Bill 29 provides a personal income tax credit of 10 percent of the cost of equipment and installation of residential, business (commercial or industrial) or agricultural solar thermal system or a solar photovoltaic system. Systems installed after ~~January~~ March 1, 2020 and before January 1, ~~2030~~ 2028 are eligible for the credit. Each installation is limited to $6 thousand in credit (based on $60 thousand cost of equipment plus installation). Total annual credits paid are limited to ~~$10~~ $8 million, with priority for payment in any year established by the order the claims are received by the ~~Taxation and Revenue Department~~ Energy, Minerals and Natural Resources Department . This credit is entitled the "new solar market development income tax credit". Claims are to be filed with the Energy, Minerals and Natural Resources Department, which is also responsible for establishing technical standards for acceptable systems and administering the hard annual cap. Once a claim has been allowed but the refund exceeds the individual's personal income tax liability, the approved refund may be carried forward for a maximum of five years.

The effective date of the bill is not stated; assume 90 days after the close of the legislative session or May 20, 2020. The credit is applicable for tax years beginning ~~January~~ March 1, 2020. There is an implicit delayed repeal (sunset) of the provisions of this bill, since systems must be installed prior to the end of ~~2029~~ 2027.

FISCAL IMPLICATIONS

LFC has had some difficulty determining the historical volume of residential solar installations in the state since the expiration of the previous credits in 2016. The reader may note that the literature, EIA data, proprietary subscription services, TRD's data and EMNRD's data do not agree. In some cases, the disagreement is profound. Efforts are underway to pursue accurate information. If better data is obtained, this FIR will be amended.

LFC staff notes that the federal renewable energy and solar tax credits expire December 31, 2021. The Trump tariff on solar panels was implemented on February 2, 2018 at 30 percent. The tariffs have been reduced by 5 percentage points each year and will be a permanent 15 percent after January 1, 2022.

Based on EMNRD data for the period 2010-2014, the average cost of a creditable solar system was $28 thousand; the average credit was $2,764 and there were about .55 systems installed per year per 1,000 population. Since 2014, module costs have continued to decline, but the Trump

administration imposed a 30 percent tariff on solar panels in September 2017. These tariffs are scheduled to decline by 5 percent each year until reaching 15 percent at the end of 2021.

Current solar system price is $2.96 in the United States. Prices have declined an average of .7 percent per month, despite the imposition of the tariffs. The following chart from EnergySage shows this effect as of the end of 2018.[1]

New Mexico prices tend to run somewhat higher than the average throughout the US, as shown in the following chart.

Nationwide prices after the 26 percent solar credit (for 2020) are $2.96 per watt. New Mexico's prices are $3.15 a watt. From December, 2016 to December, 2019, average New Mexico prices have declined from about $3.35 per watt, net of the declining federal credit, to $3.15 a watt. This is about an 8 percent per year reduction in price.

From 2013 to 2016, based on TRD claims data, the previous New Mexico solar credit was claimed by an average 1,400 taxpayers and averaged about $1.9 thousand per claim, representing the expenditure of $19 thousand per installation. Total claims averaged about 87 percent of the maximum allowable of $3 million. Average installation was about 5.8 KW at an average system

[1] Solar prices briefly spiked in September 2017 after a US trade commission ruled domestic solar manufacturers were being harmed by cheap imports, but solar panel prices soon resumed their downward trajectory by the end of the year. EnergySage, a marketplace for residential solar installations, reports residential solar installations are now falling by 0.5% per month, just under the average of 0.7% between 2015 and 2018

cost of $4.28 per watt (as of late 2016). In the final year of the credit, the cap was reached in June. This effect may explain the difference between TRD data and EMNRD data.

If this credit is reinstated, EMNRD expects 4,000 installations. LFC expects about 2,000 installations on average over the ~~10~~ 8 years of the credit. It is unlikely that the federal credit will be reinstated after December 2021, so there might be a rush to install before the end of 2021. The tariffs will continue to run at 15 percent. Increasing demand for utility scale solar installations will drive prices stable or allow them to advance somewhat rather than decline at the .5 percent per month of recent nationwide experience. From previous data, it also looked as if the percentage of total system cost attributed to installation labor was increasing, although not as fast as panel prices. However, if panel prices stabilize, then system costs will begin increasing.

Even with the combined cap for photovoltaic and solar thermal systems increasing pursuant to the provisions of this bill to ~~$10~~ $8 million a year, there will be a number of taxpayers with insufficient liability to benefit from the credit in the tax year of the installation. There will be rollovers.

Based on the LFC Personal Income Tax Model based on comprehensive information for the 2015 Tax Year, about 20 percent of all returns report at least $2.8 thousand annually in total PIT liability.

Installations installed from ~~January~~ March 1, 2020 will be eligible for credit. However, EMNRD will not approve any credit applications until after the June 14, 2020 effective date of the bill. Some of these approved claims will be rendered on amended 2018 or 2019 income tax returns, but the majority will be claimed on 2020 tax returns filed in the spring of 2021. Because only 20 percent of filed returns have liability in excess of the average credit amount, some portion of claims will be rolled over to 2021 or 2022.

It should also be noted that pursuant to the provisions of 7-36.21.2 NMSA 1978, residential solar installations are not valued for property tax purposes. This is largely a local incentive, not a state-level one and does not affect the state general fund. Solar and wind equipment sold to governments are exempt from gross receipts taxes (7-9-54.3 NMSA 1978), but most private commercial installations generate both gross receipts tax and property tax. A careful reading of the statute implies that a solar installation installed on a new residence should be valued for property tax purposes. This is a technical issue.

Based on the average level of installations when the $3 million cap was in place, enhanced by the estimated number of installations that were not creditable because of the cap, LFC staff expect the total general fund cost and number of additional installations pursuant to the provisions of this bill to be approximately as follows:

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	~~FY28~~	~~FY29~~
Number installations	2,000	1,500	1,600	1,700	1,800	1,900	2,000	~~2,000~~	~~2,000~~
Average Cost per Installation	$25,800	$23,700	$21,800	$20,100	$18,500	$17,000	$15,600	~~$14,400~~	~~$13,200~~
Total Installed Cost ($ thousands)	$51,600	$35,550	$34,880	$34,170	$33,300	$32,300	$31,200	~~$28,800~~	~~$26,400~~
Credit Amount ($ thousands)	$5,160	$3,555	$3,488	$3,417	$3,330	$3,230	$3,120	~~$2,880~~	~~$2,640~~
Rollover Percentage	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Non-refundable Credit Amount ($ thousands)	$3,870	$3,960	$3,500	$3,430	$3,350	$3,260	$3,150	$2,940	$2,700

For last year's SB-39, TRD in consultation with EMNRD expected about twice the amount of credit shown above.

> TRD conferred with EMNRD and researched market costs for a photovoltaic systems. The range of cost for a 4 kW system – the most common size system for New Mexico – is $14 thousand - $20 thousand. EMNRD anticipates as many as 400 applications during the first year of the new tax credit. Thus, TRD anticipates that the credit will exceed $5 million in each of the first five years of the new program and could easily approach the $10 million cap.

This bill narrows the personal income tax (PIT) base. See *Significant Issues* for more information.

This bill creates a new tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or be held for future consideration.

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. This is particularly true for this bill that establishes an annual cap of $10 million, whereas the precursor solar credit was capped for both personal income tax and corporate income tax together at $3 million. This creates a great deal of general fund risk.

Estimating the cost of tax expenditures is difficult. In this case, the precursor credit was capped at $3 million and, in the last year or two of the credit, an unknown number of otherwise creditable systems did not receive credit approval because of the cap. LFC staff are estimating the number of systems which would be installed that would be creditable when the cap is increased. The LFC fiscal estimate could easily be exceeded.

SIGNIFICANT ISSUES

In previous personal income tax credits, including the former solar market development credit, the legislature has chosen to implement a collateral corporate income tax credit. This bill would not allow a solar credit to be claimed on regular corporate income tax returns. However, the advent of virtually universal acceptance and use of pass-through entities (PTEs), including Sub-S corporations, Limited Liability Companies (LLCs), partnerships, limited liability partnerships,

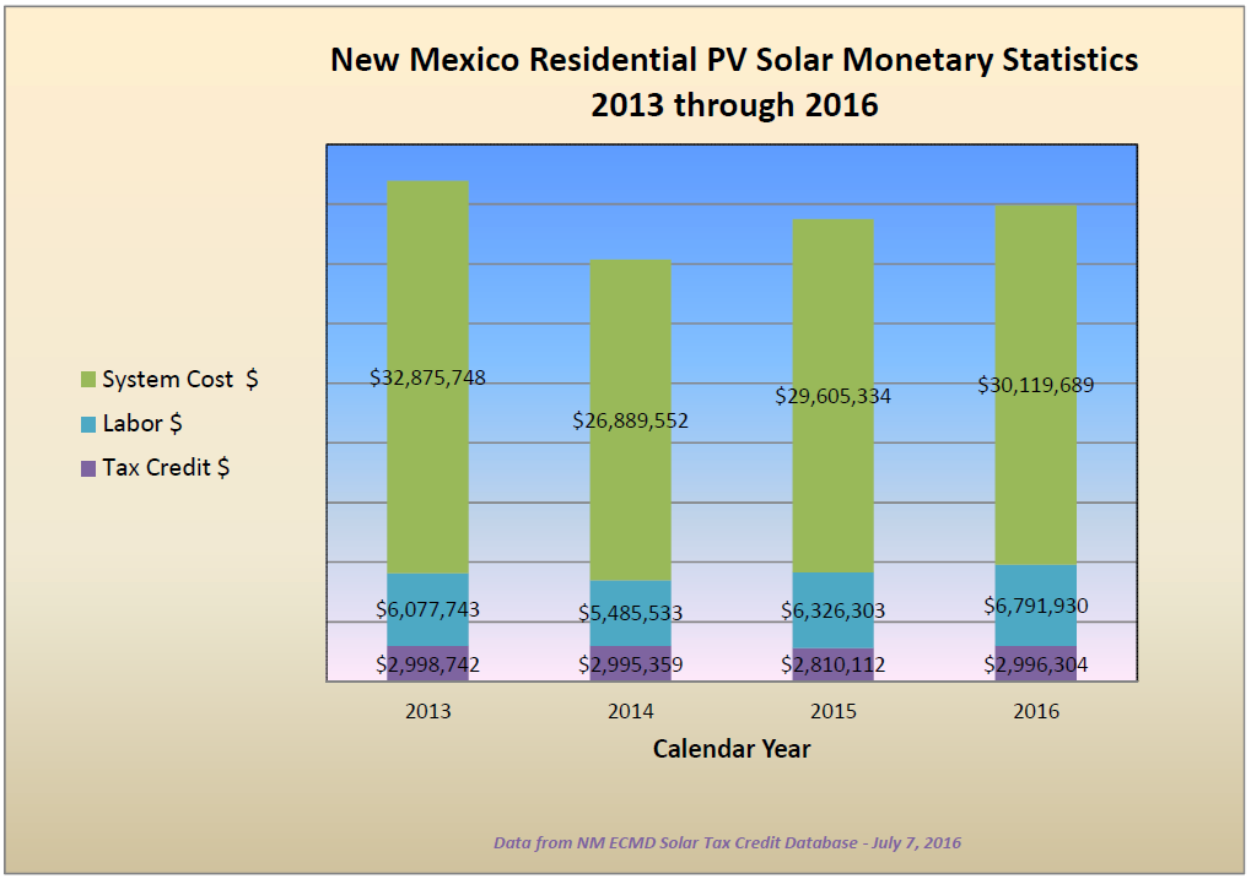
and others is critical. This proposed credit can be claimed on personal income tax returns reporting income and liability from PTEs. means that the credit can be claimed.

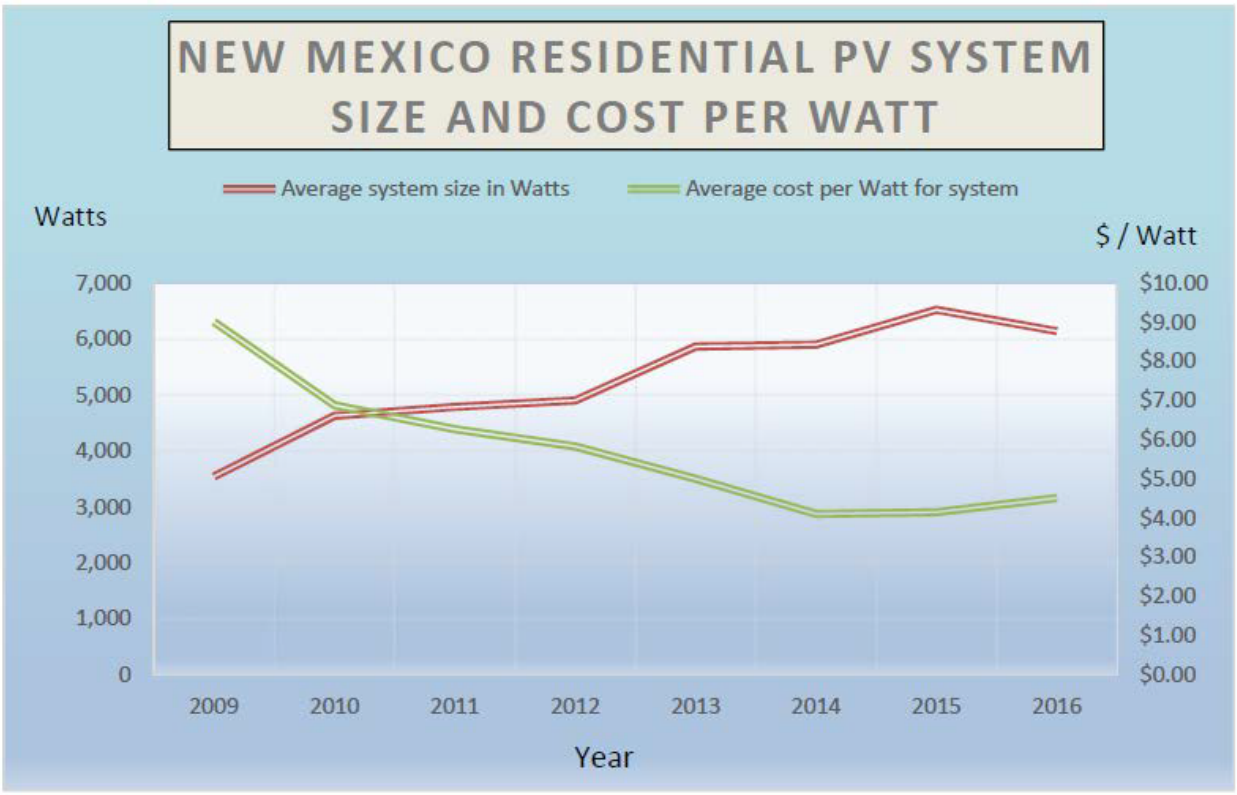
The precursor credit allowed up to a $9 thousand credit per installation. This bill has reduced that to $6 thousand. The average or typical installation is 5 KW, with an average cost of about $20 thousand. Thus, the reduction to $6 thousand maximum will have very little impact on overall general fund costs.

EMNRD notes that, "…the prior credit was in place from 2006 to 2016. Compared to the prior program, SB 29 decreases the credit available to each taxpayer while increasing the total annual cap and expanding the eligible taxpayers. The SB 29 credit is limited to $6,000 per taxpayer while the prior credit had a $9,000 limit. The prior credit had a $5 million cap allocated between PV ($3m) and solar thermal ($2m); SB 29 has a total cap of $10 million with no allocations. The prior program limited the use of the credit for commercial or industrial systems and did not allow credits for systems that heated a swimming pool or hot tub. These exclusions are not contained in SB 29."

"Under the prior Solar Market Development Tax credit program, significant increases in residential solar applications occurred. Increased adoption levels of the technology followed the significant price decreases in photovoltaic module costs. The cap of $3 million in PV tax credits per year was approached on the third year of the prior program and remained at that level until the program ended in 2016. In six of those years, over 5 MW of distributed generation was installed every year. During the eight-year life of the program over $221 million dollars were invested by customers installing these solar systems. $42 million in labor was spent across every county in New Mexico except one. Gross receipts reductions for these systems were $15 million across the state."

"The average sized system installed in 2016 under the prior program was 6.1 kW in capacity and cost $27.7 thousand. If this data is applied to the new tax credit program, an estimated 3,600 systems would be installed in every full year, resulting in an additional 22 MW of capacity per year. In purchasing these systems, owners would spend $100 million, and companies would expend $22.5 million in labor costs. The Gross Receipts Tax exclusion on the sale would be $7 million per year."


New Mexico Residential PV Solar Monetary Statistics
2013 through 2016
System Cost $
Labor $
Tax Credit $
$32,875,748
$26,889,552
$29,605,334
$30,119,689
$6,077,743
$5,485,533
$6,326,303
$6,791,930
$2,998,742
$2,995,359
$2,810,112
$2,996,304
2013
2014
2015
2016
Calendar Year
Data from NM ECMD Solar Tax Credit Database - July 7, 2016


NEW MEXICO RESIDENTIAL PV SYSTEM SIZE AND COST PER WATT
Average system size in Watts
Average cost per Watt for system
Watts
$ / Watt
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00
2009
2010
2011
2012
2013
2014
2015
2016
Year

"Solar PV system costs in 2018 are approximately $3.70 per watt (LBNL "Tracking the Sun 2019 Edition"). With the New Solar Development Tax Credit: a 2 kilowatt (kW) solar system would cost $6,660; a 4 kW system would cost $13,320 and a 6 kW system would cost $19,980."

Solar PV System Size	Cost	10% Tax Credit	Cost after Tax Credit
2kW	$ 7,400	$ 740	$ 6,660
4kW	$ 14,800	$ 1,480	$ 13,320
6kW	$ 22,200	$ 2,220	$ 19,980

PERFORMANCE IMPLICATIONS

EMNRD notes that SB29 supports the Governor's Executive Order 2019-003, Climate Change and Waste Reduction, to reduce greenhouse gas emissions of 45 percent by 2030 based on 2005 baseline levels.

ADMINISTRATIVE IMPLICATIONS

EMNRD bears a substantial burden in validating credit claims.

"The fiscal impact for EMNRD is minimal and includes staff resources to establish and maintain a program to certify solar systems for tax credit eligibility and to conduct technical reviews of each tax credit applicant. Initially, EMNRD must draft and adopt rules and develop an electronic application process. For each year, we estimate a cost of $37 thousand, for program, legal and information technology staff. The estimate is based on staff time of 1,000 hours, at a $37 average hourly rate with fringe benefits. EMNRD anticipates at least 4000 applications for the first year. The staff will create new rules, establish an electronic submission system, provide technical reviews of solar systems, certify systems for tax credit eligibility and maintain a database."

TRD recommends all tax incentive legislation include specific standardizations to facilitate operational efficiency.

- Tax credits programs should be limited to five year periods. This term facilitates a market-facing analysis, whereby market changes can be acted upon by legislators.
- Credits should not be refundable, but they should incorporate a standardized carry-forward period of three years. This limits the evaluation period of any tax credit incentive to a total of eight years, and limits the fiscal obligation to a period of three years after expiration.
- Legislation should require tax filers to apply for any credit within 12 months of the calendar year the filer qualified for the credit. This incentivizes the filer to use the credit program timely, or risk losing eligibility due solely to their nonfeasance.

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. The actual report from TRD to the legislature is likely to be in the form of the annual update of the TRD Tax Expenditure Report (TER).

TECHNICAL ISSUES

TRD notes the following technical issue: "…although this legislation repeals the expired tax credit, the prior statute specified a 10-year carry forward for unused credit amounts. As of 2017, there remained approximately $2.4 million in credits under the expired statute. Therefore, to differentiate between the competing statutes and facilitate accurate reporting, TRD recommended that the new legislation receive a unique name. This has been done by naming this new credit the "New Solar Market Development Credit."

This bill contains an implicit delayed repeal date for installation, but allows rollovers to continue for some time. LFC usually recommends adding a delayed repeal date. In this case, however, the credit should not be repealed until the expiration of the rollover period.

The following assertion should be validated by TRD's attorneys. Approximately 20 percent of the total New Mexico tax liability paid for TY 2015 was paid on Schedule B returns filed either by first-year New Mexico residents or residents of other states reporting business income from New Mexico. The solar market development credit proposed in this bill may violate the venerable U.S. Constitutional Interstate Commerce provisions because only solar installations in New Mexico are eligible for the credit.

OTHER SUBSTANTIVE ISSUES

The federal credit limits lifetime claims for solar and other energy conservation household and business installations. This proposed state credit can be utilized annually without limit.

On January 22, 2018, the Trump Administration announced import tariffs on a portion of the total quantity of imported solar panels and modules.

Safeguard Tariffs on Imported Solar Cells and Modules			
Year 1 (2018)	**Year 2 (2019)**	**Year 3 (2020)**	**Year 4 (2021)**
30%	25%	20%	15%

* First 2.5 gigawatt of imported cells are excluded from the additional tariff.

Federal Renewable Energy Tax Credits:

Solar-electric property

- 30% for systems placed in service by 12/31/2019
- 26% for systems placed in service after 12/31/2019 and before 01/01/2021
- 22% for systems placed in service after 12/31/2020 and before 01/01/2022
- There is no maximum credit for systems placed in service after 2008.

- Systems must be placed in service on or after January 1, 2006, and on or before December 31, 2021.
- The home served by the system does not have to be the taxpayer's principal residence.

Solar water-heating property

- 30% for systems placed in service by 12/31/2019
- 26% for systems placed in service after 12/31/2019 and before 01/01/2021
- 22% for systems placed in service after 12/31/2020 and before 01/01/2022
- There is no maximum credit for systems placed in service after 2008.
- Systems must be placed in service on or after January 1, 2006, and on or before December 31, 2021.
- Equipment must be certified for performance by the Solar Rating Certification Corporation (SRCC) or a comparable entity endorsed by the government of the state in which the property is installed.
- At least half the energy used to heat the dwelling's water must be from solar in order for the solar water-heating property expenditures to be eligible.
- The tax credit does not apply to solar water-heating property for swimming pools or hot tubs.
- The home served by the system does not have to be the taxpayer's principal residence.

Fuel cell property

- 30% for systems placed in service by 12/31/2019
- 26% for systems placed in service after 12/31/2019 and before 01/01/2021
- 22% for systems placed in service after 12/31/2020 and before 01/01/2022
- The maximum credit is $500 per half kilowatt (kW).
- Systems must be placed in service on or after January 1, 2006, on or before December 31, 2021.
- The fuel cell must have a nameplate capacity of at least 0.5 kW of electricity using an electrochemical process and an electricity-only generation efficiency greater than 30%.
- In case of joint occupancy, the maximum qualifying costs that can be taken into account by all occupants for figuring the credit is $1,667 per 0.5 kW. This does not apply to married individuals filing a joint return. The credit that may be claimed by each individual is proportional to the costs he or she paid.
- The home served by the system must be the taxpayer's principal residence.

Small wind-energy property

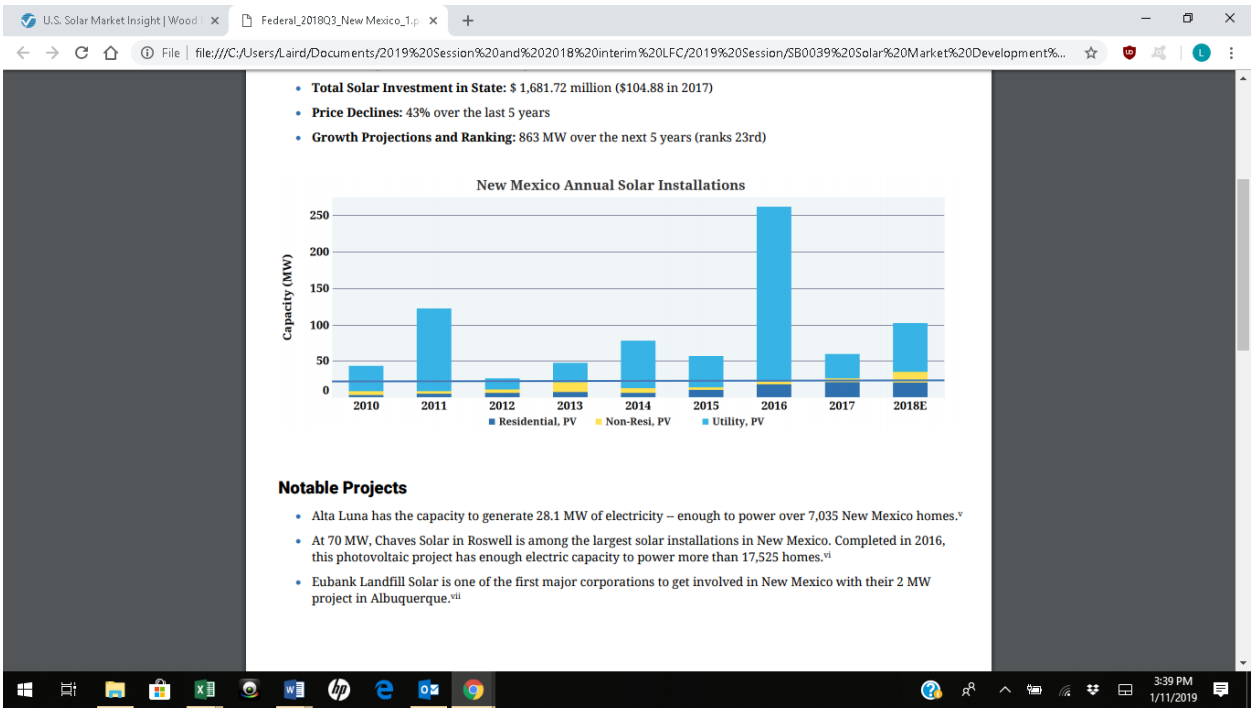
- 30% for systems placed in service by 12/31/2019
- 26% for systems placed in service after 12/31/2019 and before 01/01/2021
- 22% for systems placed in service after 12/31/2020 and before 01/01/2022
- There is no maximum credit for systems placed in service after 2008.
- Systems must be placed in service on or after January 1, 2008, on or before December 31, 2021.
- The home served by the system does not have to be the taxpayer's principal residence.

Geothermal heat pumps

- 30% for systems placed in service by 12/31/2019
- 26% for systems placed in service after 12/31/2019 and before 01/01/2021
- 22% for systems placed in service after 12/31/2020 and before 01/01/2022
- There is no maximum credit for systems placed in service after 2008.

- Systems must be placed in service on or after January 1, 2008, and on or before December 31, 2021.
- The geothermal heat pump must meet federal Energy Star criteria.
- The home served by the system does not have to be the taxpayer's principal residence. Significantly, The American Recovery and Reinvestment Act of 2009 repealed a previous limitation on the use of the credit for eligible projects also supported by "subsidized energy financing." For projects placed in service after December 31, 2008, this limitation no longer applies.

https://www.nrel.gov/docs/fy17osti/68925.pdf
https://www.seia.org/solar-industry-research-data



ALTERNATIVES

The National Conference of State Legislatures (NCSL) estimates that 60 percent of a typical residential or commercial installation represents "soft costs." These include installation labor, profit for the installer, permit fees, and other costs. One way of reducing end costs to residents and businesses might be to reduce the soft costs by simplifying the permitting process.

According to various sources, several New Mexico utilities still offer some level of renewable energy certificates. These certificates reduce the monthly bill to customers with solar generation by a contracted amount. These RECs have varied over time in New Mexico from a maximum of $.13 per KwH (approximately $120 per month for a 6 Kw array) to zero for arrays installed currently. Allowing PRC to adjust these RECs might be another option.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

The industry may shrink as a result of the combined effect of saturation or the combined effect of the loss of federal 22 percent to 30 percent credit and the advent of import duties of up to 30 percent of import price. While these bigger issues may dominate, failure to pass this bill may encourage additional companies to abandon the industry. This effect was noted in the solar credit for active solar systems – primarily for water and space heating – that provided a 10 percent state credit from roughly 1983 to the oil price collapse in mid 1986. First, the credit payments were delayed by a year and then cancelled. The fledgling industry was decimated. The following table exhibits this:

Solar Credits		
72nd FY	(1983-84)	$7,253,386
73rd FY	(1984-85)	$10,932,695
74th FY	(1985-86)	$9,920,269
75TH FY	(1986-87)	$2,658,322
76TH FY	(1987-88)	$226,934
77th FY	(1988-89)	$179,961
78TH FY	(1989-90)	$135,230
79TH FY	(1990-91)	$180,210
80TH FY	(1991-92)	$7,984
81ST FY	(1992-93)	$2,955
82nd FY	(1993-94)	$1,065

Unlike the current credit, the previous credit was apparently misused. Unethical operators "sought the rents", and largely consumed the 10 percent credit and a portion of the federal 30 percent credit. This effect was not well documented. The current credit was quite properly administered, largely because of the EMNRD certification for solar electric systems.

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

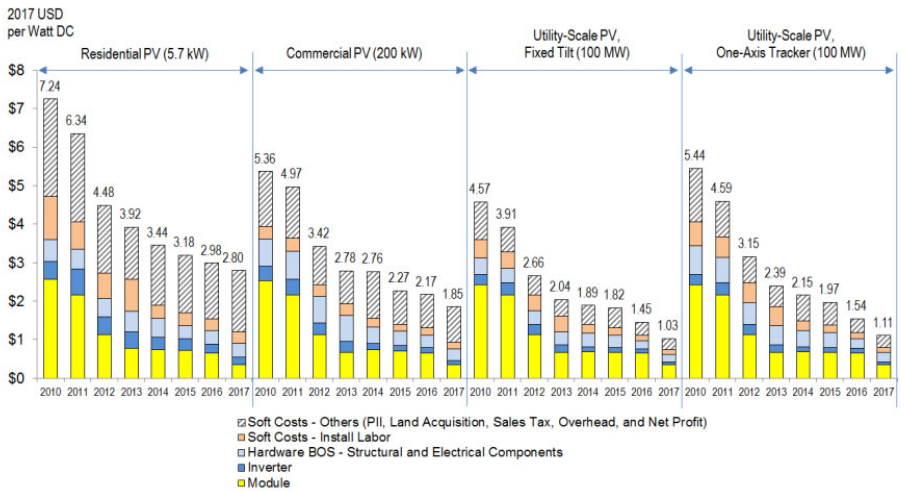
1. Any tax expenditure reduces revenue. In this case, a personal income tax credit only reduces general fund revenue, whereas gross receipts tax expenditures tend to reduce both state level taxes and local taxes.
2. Economic efficiency is also suspect, since this tax expenditure serves to subsidize a particular form of economic activity.
3. Overall, the purchase of a 5 or 6 Kilowatt solar array for around $28 thousand puts this option out of the price range of about 80 percent of New Mexicans. It is, perhaps, still a luxury good. So the equity involved is suspect.

4. Because of the desirable feature of this tax expenditure that minimizes abuse but requires at least three state agencies to be involved (Construction Industries Division of RLD, TRD and EMNRD) and an Investor-Owned Utility (in case of grid-tied systems and the potential of Res), soft costs and approval delays add between $3.2 thousand and $4.7 thousand to the costs of a typical 5 Kw system. This complexity is necessary, but is also an opportunity.
5. Accountability is preserved with this credit because of the required TRD reporting to the legislature.

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.

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	✓	
Targeted		
Clearly stated purpose	✓	The solar industry in New Mexico can hardly be considered new. Zomeworks began business in New Mexico in 1969 and is still in business.
Long-term goals	✗	None stated.
Measurable targets	✗	None stated
Transparent	✓	
Accountable		
Public analysis	✗	
Expiration date	✗	
Effective		
Fulfills stated purpose	✗	No purpose stated
Passes "but for" test	✗	The industry has been continuously growing, but may be in a saturation phase.
Efficient	✗	Credit serves to subsidize a particular but socially beneficial industry. This may be a way of internalizing positive externalities because of the non-polluting nature of solar-generated electricity.
Key: ✓ Met ✗ Not Met ? Unclear		



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