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

SPONSOR Martinez, J. **ORIGINAL DATE** 1/24/2020 **LAST UPDATED** 2/05/2020 **HB** 145/aHCEDC

SHORT TITLE Fire Suppression Equipment Tax Credit **SB**

ANALYST Torres

REVENUE (dollars in thousands)

Estimated Revenue		Recurring or Nonrecurring	Fund Affected
FY20	FY21		
($1,000.0)		Nonrecurring	General Fund
$1,000.0		Nonrecurring	Main Street Fire Suppression Equipment Tax Credit Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	$26.0	$0.0	$0.0	$26.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)
Taxation and Revenue Department (TRD)
Department of Cultural Affairs (DCA)

SUMMARY

Synopsis of HCEDC Amendment

The House Commerce and Economic Development Committee amendments primarily clean up language to be consistent with other state tax credits.

The final change made is substantive to ensure the tax credit would be available for use in rural communities with the most need. The amendment inserts “metropolitan redevelopment area” into the definition of a "qualified main street business" by adding the additional qualification of requiring a business to be located in an adopted metropolitan redevelopment area (MRA). The designation of an MRA is based on findings of "blighted" economic and physical conditions, as defined in the Metropolitan Redevelopment Code (Section 3-60S-8 NMSA 1978). See Other Issues for a full list of MainStreet and Arts & Cultural District communities with a Metropolitan Redevelopment Area designation that would qualify for this credit.

Synopsis of Original Bill

House Bill 145 creates the Main Street Fire Suppression Equipment Tax Credit and the Main Street Fire Suppression Equipment Tax Credit Fund. HB145 also distributes a one-time, nonreverting $1 million from gross receipts tax (GRT) revenue to the created fund for the administration of the credit.

The newly created credit allows businesses located in designated New Mexico MainStreet Districts and state authorized Arts and Cultural Districts to receive a tax credit equal to 50 percent of the total costs of installing qualified fire suppression equipment. The credit is capped at $50 thousand per business and may be carried forward up to five consecutive taxable years.

The effective date of this bill is July 1, 2020. There is no delayed repeal date but LFC recommends adding one.

FISCAL IMPLICATIONS

The one-time disbursement from the general fund to the newly created fund will reduce recurring revenues in FY20, as the bill specifies the disbursement must be made prior to July 1, 2020. It is unclear how quickly the fund will deplete from claims for the newly created credit. Assuming a maximum credit of $50 thousand per business, only 20 companies need to apply for the fund to be exhausted. This could cause new disbursements from the general fund to be sought quickly, depending on business interest.

The Economic Development Department would be tasked with certifying that businesses are a qualified main street business located in a class b county and in either a designated MainStreet District or State Authorized Arts & Cultural District. New Mexico MainStreet has GIS maps of all the districts and current staff can easily determine if a business is a "qualified main street business" by verifying the address and determining if it is located within the boundaries of a MainStreet/ACD district with minimal impact to the Economic Development Department's operating budget.

There is a moderate impact to the Information Technology Division of TRD with soft costs as indicated above in the operating budget impact table to implement the new tax credit. Implementation by the effective date is feasible.

SIGNIFICANT ISSUES

The tax credit in HB145 creates a new strategy for administering tax credits, where funding for the credit is made in one-time appropriations. Although this bill contains only one appropriation, it is likely that businesses may come to expect the credit regardless of the funding available in the newly created fund. This may result in additional appropriations to the fund to meet business expectations resulting in tax credit costs that otherwise would have resulted from a typically structured credit. Yet, this structure gives the Legislature greater authority and discretion in the administration of the credit by requiring appropriation when additional funds are needed.

The Department of Cultural Affairs "supports incentives to preserve, reuse, and rehabilitate historic buildings in commercial areas. One of the most significant ways that historic places are preserved is when buildings are rehabilitated to meet contemporary needs. Rehabilitation and reuse must be flexible to meet building and life safety codes, including the installation of fire suppression equipment. Without which businesses may be forced to choose between historic and non-historic buildings depending on the availability of certain requirements of the safety systems."

The Economic Development Department adds the following:

> Many rural downtowns across New Mexico face serious challenges in repurposing existing structures. The ever growing shift of "dry-goods" retail to the internet, and the migration of offices out of downtown areas, has resulted in numerous empty structures in the "Main Street" areas of New Mexico municipalities. These same buildings, however, can take on a new life as centers of dining, entertainment, and downtown residential.
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> Most rural New Mexico downtowns have structures that are over 50 years old and do not comply with modern Fire Safety requirements. To retrofit these facilities is expensive. It costs approximately $7 to $16 per square foot to retrofit an existing structure with fire suppression. To bring a modest 10 thousand square foot building into compliance would cost between $70 thousand and $160 thousand depending on the age, condition, and historic nature of the building. These costs, imposed by the state fire code, simply make it more difficult for a restaurant or similar operation to succeed. Any residential above the ground floor also requires fire suppression. Thus unused office space that could provide vibrant downtown housing often sits empty. The proposed legislation would provide financial incentives for business owners, property owners, and developers to activate vacant and underutilized buildings in rural downtowns and commercial districts that would otherwise remain vacant.
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> New Mexico MainStreet (NMMS) is a community economic development program of the New Mexico Economic Development Department. The programs core objective is downtown revitalization and redevelopment. NMMS has 30 designated MainStreet Communities/Districts and 11 State Authorized Arts & Cultural Districts. Each of these districts have a designated district boundary and an adopted Master Plan, Metropolitan Redevelopment Area Plan, and/or a Cultural Economic Development Plan to guide revitalization work in the area. NMMS provides professional technical assistance and resources to local MainStreet and Arts & Cultural District programs and their local government partners for public infrastructure improvements, small business development, building rehabilitation/façade improvements, and marketing/promotion of their downtown districts.
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> Vacant and underutilized buildings are one of the biggest impediments to downtown revitalization in all of New Mexico's rural communities. New Mexico MainStreet through capital outlay allocations from the Legislature is currently making targeted investments in upgrading the public infrastructure and streetscapes in rural MainStreet and Art & Cultural

Districts as commercial centers with severe safety and infrastructure issues deter private reinvestment. Targeted infrastructure investments along with the passage of HB145 could be a game changer for rural MainStreet communities as it would create an opportunity to build off the public infrastructure investments and encourage private sector reinvestment by removing financial barriers to the fire suppression upgrade of these buildings and put these vacant buildings back to productive use.

OTHER ISSUES

The Economic Development Department indicates that there are currently 22 Main Street communities and 7 Arts and Cultural districts in the state that meet the additional requirement of being in a class B county. These are given below:

- Alamogordo
- Belen
- Carlsbad (MRA designation/plan in process)
- Clayton (MRA designation/plan in process)
- Clovis
- Deming
- Gallup
- Grants
- Las Vegas
- Lovington
- Mosquero – Harding County
- Portales (MRA designation/plan in process)
- Raton
- Roswell
- Roy – Harding County
- Santa Rosa
- Silver City
- Taos (MRA designation/plan in process)
- Truth or Consequences
- Tucumcari

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.

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	**Met?**	**Comments**
Vetted	✓	The issue was discussed at the Revenue Stabilization and Tax Policy Committee prior to the Legislative Session, and was endorsement.
Targeted Clearly stated purpose Long-term goals Measurable targets	 ✘ ✘ ✘	 No purpose, targets or goals established.
Transparent	✓	TRD will likely present an annual cost estimate and evaluation to legislative committees
Accountable Public analysis Expiration date	 ✓ ✘	 The bill contains provisions for reporting. The bill does not include an expiration date.
Effective Fulfills stated purpose Passes "but for" test	 ? ?	Without a purpose statement, it is not possible to determine if the exemption fulfills intended outcomes.
Efficient	?	Without a purpose statement, it is not possible to determine if the exemption is the most efficient means of achieving a desired outcome. However, providing tax relief to businesses updating infrastructure for MainStreet programs is likely to incentivize activity.
Key: ✓ Met ✘ Not Met ? Unclear		

IT/rl/sb/rl/al