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**Effectiveness of NM's incentives a mystery**

BY DENNIS DOMRZALSKI | NMBW STAFF

New Mexico's tax code is riddled with tax exemptions, credits, deductions and rebates. There are 47 in all, and they are designed mostly to stimulate economic development.

The problem state Sen. Tim Keller, D-Albuquerque, has with all those exemptions and credits is that no one really keeps track of how much they cost the state and whether they're effective or not.

So Keller plans to introduce a bill in the 2010 session of the New Mexico Legislature to track those exemptions, incentives and tax expenditures, and

to require the state to produce an annual report on their cost and effect.

"We have about \$2 billion worth of tax expenditures and incentives, and we don't have an aggregate list of how much they are worth every year," Keller says. "The issue is that we want to see what is effective and how much these various incentives are worth every year."



Keller

Keller says there are \$900 million in annual incentives built into the state's tax code.

"When you broaden them to include things like the High Wage Jobs Tax Credit and the Food Tax Credit, it grows to about \$2 billion a year," Keller says.

New Mexico is one of eight states that do not produce a tax expenditure report, Keller says.

"This bill would force the executive [branch] to track and report the costs and benefits associated with our state's billions in tax expenditures, incentives and exemptions," Keller says. "Regardless of what particular incentives are good or bad for our state, we will never be able to evaluate them prop-

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## **MYSTERY:** *Beneficiaries don't like being questioned*

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erly, or have real accountability and transparency, without a bill like this.”

Keller has some allies in his efforts to track the information. The state's Legislative Finance Committee, in a May 2009 report, said there was no real way of knowing whether the incentives are effective.

“Many agencies and programs play a part, significant funding is involved, programs appear to be fragmented or duplicated, and credible performance outcomes are lacking,” the report says.

The nonprofit group, New Mexico Voices for Children, issued a report earlier this year that said the state had no way to measure the effectiveness of its economic development incentives.

Keller has another ally in state Sen. John Arthur Smith, D-Deming, who has long questioned the cost and effectiveness of some of the state's tax incentives.

“This is not an exciting subject by any means, but it is critical when you are trying to get responsible spending, and that seems to be an endangered species in government,” Smith says.

Bills similar to Keller's have been introduced in the past, but they have failed, Smith adds.

“This is not a unique bill; they've been carried in the past, but industries fight them because they don't want to be questioned. They're the beneficiaries of these things and they don't want to be scrutinized,” Smith says.

Smith has been especially critical of the state's gross receipts tax credit for the film industry. A few years ago, the state was rebating \$15 million to production companies that filmed in the state. Smith said he saw the rebate had the potential to grow exponentially and tried to cap it at \$30 million. His bill failed.

Smith said in 2009, the state rebated \$82 million to production companies.

He also questions the effectiveness of some of the incentives, especially those for the film industry. A recent study by New Mexico State University's Arrowhead Center said film industry incentives returned 14.4 cents for every dollar spent.

A second study by Ernst and Young said the return was \$1.50 for every \$1 of state tax credit spent.

“It's difficult to know what we're doing when we don't have the data about what is going on,” Smith says.

### **Some of New Mexico's economic development incentives:**

- Affordable Housing Tax Credit
- Solar Market Development
- High Wage Jobs Tax Credit
- Job Mentorship Tax Credit
- Rural Jobs Tax Credit
- Film Production Tax Credit

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