

Proposal Summary

The proposal makes changes to the issuance, scope, and evaluation of industrial revenue bonds (IRBs). IRBs are locally authorized funding mechanisms allowing development projects to take advantage of exemptions from property and gross receipts taxes.

The proposal requires IRB projects to pay school districts payment-in-lieu-of-taxes (PILTs) and requires IRB projects to pay the state five percent of the PILT amount paid to school districts, municipalities, and counties. The proposal allows local governments and the electorate to add new property tax increments to IRB projects. IRBs issued after July 1, 2027 could be subject to property taxation if counties or municipalities add a new property tax levy via election. IRBs would continue to benefit from an abatement on property taxes in place at the time the IRB was issued. However, if local governments and the electorate voted to add additional tax mills, the IRB project would be subject to the new portion. Projects would still receive exemptions on state and local gross receipts taxes.

The proposal also changes the process for IRB issuance. Currently, local governments issue IRBs and send a notice to other taxing authorities, like school districts and the state, but these entities have no approval authority. Under this proposal, the Legislature would approve the bond amount after receiving a fiscal analysis from the state board of finance. The proposal states: “the issuance of the bonds and the maximum amount of bonds to be issued shall be specifically authorized by law.”

In addition, the proposal adds reporting and tracking requirements. The state board of finance is required to review a bond application and complete a fiscal analysis that includes the value of the tax exemptions, the value of economic incentives, the estimated number of new jobs and wages, and a determination of whether the bond meets legislative intent as established in the Industrial Revenue Bond Act. The Economic Development Department is required to create a public database on IRBs, including the tax exemption value, economic outcomes data, the beneficiary, status, and maturity date.

The proposal makes changes to IRBs at both the county and municipal level because IRBs may be authorized at both levels of government. The proposal also disallows municipalities to issue IRBs outside of their boundaries. The proposal includes a \$250 thousand nonrecurring appropriation to the department of finance. The effective date begins July 1, 2027 and is only applicable to IRBs issued after that date.

IRB Reform

Sponsor(s): Senator Muñoz

202#: 234809.2

October 15, 2026

One-Year Revenue Increase

\$0.5 M general fund

Five-Year Revenue Increase

\$2.5 M general fund

Impact by Fund (millions)

Fund	1 Year	5 Year
General Fund	\$0.5	\$2.5
Local Governments	Positive but minimal	

Issues

IRBs, authorized under state law, allow counties and municipalities to issue bonds on behalf of private companies, primarily as a mechanism to establish a public ownership structure that enables the transfer of public-entity tax advantages; while companies repay the bonds and retain operational control of all aspects of the project, the structure confers significant benefits, including property tax abatements and exemptions from gross receipts tax. Like other economic development incentives, IRBs reflect a policy tradeoff: local governments voluntarily forgo a portion of future tax revenue in exchange for the expectation that new investment and economic activity will generate broader public benefits that outweigh the fiscal cost.

A 2026 policy spotlight by the Legislative Finance Committee (LFC) notes that IRB activity has proliferated, with approximately 210 issuances and an average issuance amount of \$1.2 billion. Despite this, the LFC report notes “the state lacks a comprehensive understanding of the impact to state revenues, associated local revenue effects, intergovernmental fiscal interactions, or whether these anticipated economic benefits are sufficient to offset the public cost of the incentives.”

New Mexico’s decentralized IRB framework is a barrier to oversight, transparency, and evaluation. New Mexico’s industrial revenue bond (IRB) statutes place greater emphasis on local control and tax abatements than most states. Nationally, IRBs are more often used as financing tools to lower borrowing costs, and many states include stronger state oversight or standardized frameworks. In contrast, New Mexico relies on counties and municipalities to negotiate IRBs who use them instead to deliver property tax abatements and gross receipts tax advantages. Within New Mexico, state agencies play little to no role. For example, while the Taxation and Revenue Department reviews applications for the nontaxable transaction certificates (NTTCs) used by many IRB projects, the data is not systematically compiled, analyzed, or publicly reported as part of a statewide assessment of IRB activity or fiscal impacts. This decentralized structure and locally negotiated agreements produce inconsistent eligibility criteria, performance requirements, and reporting practices across jurisdictions, limiting transparency, reducing comparability among projects, and complicating statewide evaluation of IRB costs and effectiveness.

Comparison to Approved Guidelines

The proposal did not meet committee guidelines in some of the submission criteria. The criteria are designed as an example of national best practices in tax policy design. Current statute defines the purpose of IRBs, which the proposal leaves unchanged. It may be reasonably assumed that the purpose of the proposal is the same as the purpose of the original statute. However, the proposal does not identify why a change is appropriate to accomplish the purpose.

The proposal does not include a theory of change. The proposal's primary measurable target is the expended number of new jobs and the range of wages. The proposal also requires the state board of finance to make a determination of whether a project meets the IRB statute's legislative intent.

The proposal does not include an expiration date. An expenditure cap is not feasible given the IRB process, although adding legislative oversight may allow policymakers to limit the state's fiscal exposure during weak revenue periods. The proposal adds strong reporting requirements, including reporting on beneficiaries,

1	Clearly Stated Purpose	Does the proposal identify the problem to be solved?	
		Does it explain why a tax policy change is the right solution?	
		If an economic development incentive, is the purpose included in the language of the proposal itself?	
2	Theory of Change or Logic Model	Does the proposal explain how the tax change will achieve the intended outcome?	
		Does it identify the taxpayer behavior it is intended to influence?	
3	Measurable Goals and Targets	Does the proposal identify expected outcomes?	
		Does it identify affected populations or activities?	
		Does it explain how success will be measured?	
4	Fiscal Impact Analysis	Does the proposal estimate the impact on the general fund?	
		Does it estimate the impact on the local government and other funds?	
		Does it identify the impacts as recurring or nonrecurring?	
5	Expiration Date (Sunset)	Does the proposal include a delayed repeal?	
6	Expenditure Cap	If feasible, does the proposal include an annual or aggregate cap on total cost?	N/A
7	Effective Targeting	Does the proposal clearly identify eligible taxpayers or activities?	N/A
		Does it limit benefits to those populations or activities necessary to achieve the stated purpose?	N/A
8	Reporting Requirements	Does the proposal require sufficient reporting on utilization, cost, and outcomes?	
		Does it provide for data collection, sharing, and analysis?	
		Does it identify performance measures and targets?	

Fiscal Impacts

Staff estimates the proposal would increase recurring general fund revenue by \$500 thousand a year, with a five-year impact of \$2.5 million. The impact is recurring. Administrative cost is additional and comparatively small. The nonrecurring appropriation would be available for expenditure between fiscal years 2028 and 2030. A 2026 LFC policy spotlight on IRBs estimated the costs associated with IRBs. That report notes that school districts received \$10.1 million in PILTs in the 2024-2025 school year. The state would receive five percent of the PILT payments, and it is assumed that counties and municipalities receive a negligible amount of PILTs.

Subjecting IRB projects to new property tax levies may raise local government revenues. However, many local governments are not authorized to increase property tax rates for operational uses. Instead, special property tax levies

are available to fund specific initiatives, like bonds. Therefore, the timing and magnitude of the fiscal impacts to local government is unknown but likely minimal for operational needs.

Other Considerations

New Mexico's property taxes rank among the lowest in the country across many measures. New Mexico's average property tax rate is the 34th highest in the nation at 0.8 percent, compared to 1.1 percent nationally.¹ Per capita property taxes paid and median taxes paid are some of the lowest in the nation at \$936 and \$1,470, respectively. Taxpayers' property tax burden, measured as the property tax share of personal income, is in the lowest 10 states in the country at 1.8 percent, compared to 2.9 percent nationwide.

There is a significant literature devoted to how businesses react to taxes. In general, the literature suggests taxes are a substantial factor in the decision-making process for businesses, although the type of taxes and many other considerations are important. The research consensus is that the long-run elasticity of state and local business activity to total state and local business taxes is -0.5 , with a 95 percent confidence interval from -0.15 to -0.85 .² Applying this elasticity, returning IRB projects to the property tax base will likely have a small negative effect on some business activity.

Technical Considerations. The IRB property tax exemption is duplicated in statute, appearing both in the Industrial Revenue Bond Act and the property tax code. An additional addendum to the exemption may be necessary in 7-36-3 NMSA 1978 for maximum taxpayer and local government clarity.

Comparison to Tax Principles

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

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

Potential Questions

- Adding legislative approval into the IRB process adds a significant burden to projects receiving state and local tax benefit. How will legislative approval improve outcomes?
- How do you anticipate the Legislature to use economic analysis from the board of finance?
- Do you expect local governments to levy new property taxes to partially reintroduce IRB projects into the tax base? If so, how many?
- Why does the proposal retain the existing property tax abatement and not add all new IRBs into the local government tax base?
- Why should the state receive PILTs from IRB projects? Why should the state receive a small share of IRB PILTs?

¹ Lincoln Institute, *Significant Features of the Property Tax*, 2024

² Bartik, Timothy J. 2018. "Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." Upjohn Institute Technical Report No. 18-034. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/tr18-034>