# Strong Communities, Stable Revenues

## Presentation to the Revenue Stabilization and Tax Policy Committee

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# 2026 Legislative Priorities Focus on Protecting Municipal Revenues and Local Capacity

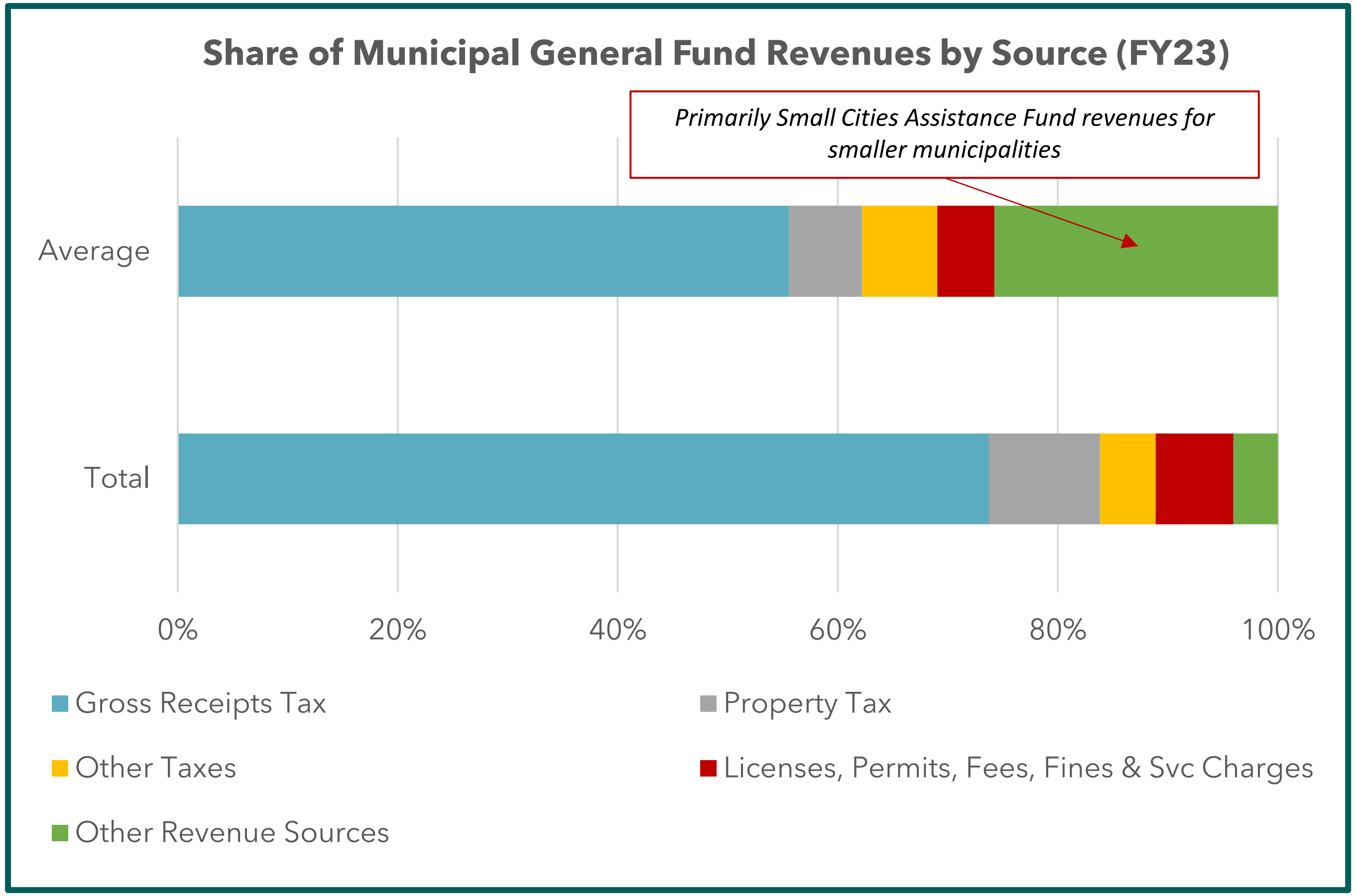
- Municipalities provide **essential, everyday services** – safe roads, clean drinking water, responsive police, fire, and emergency medical services
- **Stable and predictable revenues** allow cities to deliver the core services New Mexicans rely on daily
- **A broad tax base supports low rates** for taxpayers and also **provides stability** and predictability for local budgets
- **Thank you for your support of our local communities**
  - 2025 funding for the Water Project Fund will support critical water and wastewater projects statewide
  - SB 151 (2024) and SB 197 (2025) directed more funding to local EMS services and made it easier for local governments to purchase ambulances
  - Support for public safety in recent years (including survivor benefits for law enforcement and fire; funding for public safety radio network; increase in Law Enforcement Protection Fund distributions) strengthens local capacity

- The **New Mexico Municipal League** represents all 106 municipalities in the state and supports professional affiliate groups for municipal elected officials and staff. The League represents municipal interests in the Legislature and provides training, education, and other resources to members.
- Through the **New Mexico Self-Insurers' Fund,** we insure 94 municipalities and a number of other public entities for property, liability, and workers' compensation.

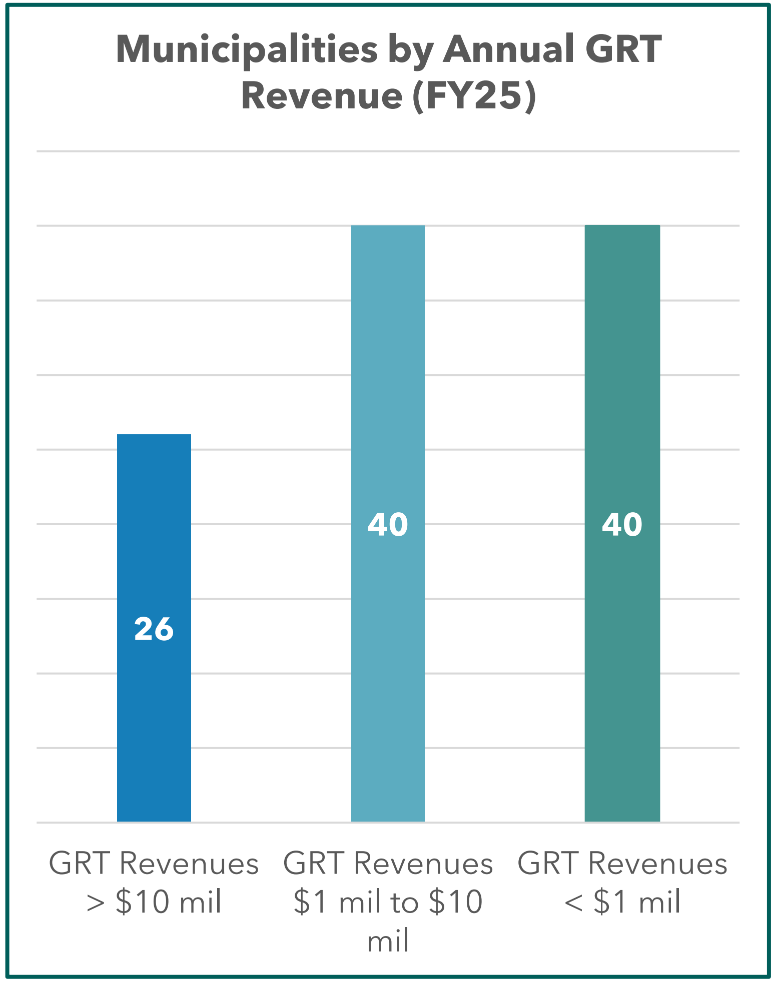
NEW MEXICO MUNICIPAL LEAGUE

# Municipal Revenues Rely on a Narrow and Volatile Base

- Two-thirds of total municipal general fund revenues come from GRT; 56 percent on average
- GRT is volatile and sensitive to economic shifts
- Municipalities have limited options to raise revenue outside of GRT
- Three-quarters of cities operate on annual GRT revenues of less than $10 million; 40 percent on less than $1 million *(see next slide)*



# Nearly 40 Percent of Municipalities Earn Less Than $1 Million in Annual GRT




**GRT Revenues >$10 mil**

- Albuquerque ($647 mil)
- Santa Fe ($170 mil)
- Las Cruces ($133 mil)
- Rio Rancho ($81 mil)
- Los Alamos ($80 mil)
- Carlsbad ($79 mil)
- Farmington ($78 mil)
- Hobbs ($63 mil)
- Roswell ($54 mil)
- Los Lunas ($40 mil)
- Clovis ($37 mil)
- Gallup ($37 mil)
- Alamogordo ($35 mil)
- Artesia ($30 mil)
- Ruidoso ($23 mil)
- Taos ($21 mil)
- Loving ($21 mil)
- Jal ($17 mil)
- Silver City ($17 mil)
- Deming ($15 mil)
- Las Vegas ($15 mil)
- Belen ($13 mil)
- Espanola ($12 mil)
- Lovington ($11 mil)
- Grants ($10 mil)
- Bernalillo ($10 mil)

**GRT Revenues $1 mil to $10 mil**

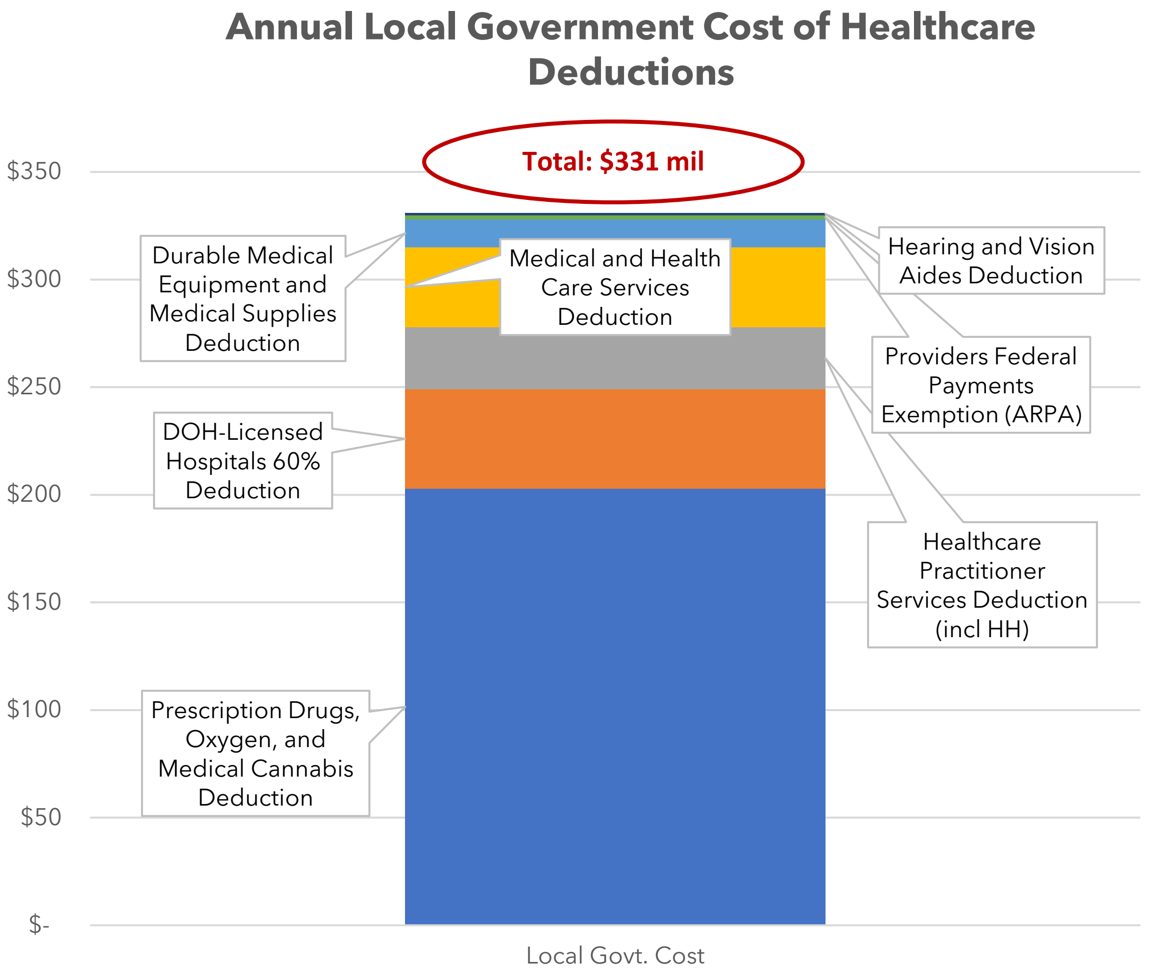
- Sunland Park ($9.5 mil)
- Portales ($9.3 mil)
- Edgewood ($8.2 mil)
- Socorro ($7.9 mil)
- Aztec ($6.9 mil)
- T or C ($6.6 mil)
- Bloomfield ($6.1 mil)
- Angel Fire ($6 mil)
- Raton ($5.7 mil)
- Ruidoso Downs ($5.3 mil)
- Corrales ($5.2 mil)
- Los Ranchos ($5.1 mil)
- Eunice ($5 mil)
- Tucumcari ($4.8 mil)
- Moriarty ($4.1 mil)
- Red River ($3.5 mil)
- Milan ($3.5 mil)
- Bosque Farms ($3.3 mil)
- Santa Rosa ($3.2 mil)
- Estancia ($3 mil)
- Anthony ($2.6 mil)
- Clayton ($2.6 mil)
- Corona ($2.4 mil)
- Lordsburg ($2.4 mil)
- Mesilla ($2.1 mil)
- Peralta ($1.9 mil)
- Cuba ($1.8 mil)
- Taos Ski Valley ($1.8 mil)
- Hatch ($1.7 mil)
- Bayard ($1.7 mil)
- Cloudcroft ($1.7 mil)
- Tijeras ($1.6 mil)
- Kirtland ($1.4 mil)
- Tularosa ($1.3 mil)
- Chama ($1.3 mil)
- Springer ($1.3 mil)
- Carrizozo ($1.2 mil)
- Rio Communities ($1.1 mil)
- Elephant Butte ($1.1 mil)
- Questa ($1 mil)

**GRT Revenues <$1 mil**

- Columbus ($987K)
- Capitan ($984K)
- Logan ($873K)
- Pecos ($675K)
- Ft Sumner ($666K)
- Des Moines ($652K)
- Hagerman ($610K)
- Dexter ($602K)
- Vaughn ($560K)
- Santa Clara ($546K)
- Eagle Nest ($543K)
- Mountainair ($529K)
- Texico ($526K)
- Magdalena ($501K)
- Mosquero ($500K)
- Hurley ($491K)
- Williamsburg ($483K)
- Tatum ($471K)
- Cimarron ($447K)
- Jemez Springs ($428K)
- San Jon ($370K)
- Encino ($343K)
- Melrose ($311K)
- Reserve ($266K)
- San Ysidro ($181K)
- Elida ($156K)
- Wagon Mound ($144K)
- Maxwell ($130K)
- Lake Arthur ($125K)
- Village Of Grady ($97K)
- Roy ($88K)
- Willard ($79K)
- House ($67K)
- Dora ($52K)
- Causey ($34K)
- Folsom ($30K)
- Hope ($29K)
- Grenville ($27K)
- Floyd ($26K)
- Virden ($18K)

# Tax Base Erosion Threatens Local Revenues, Services

- GRT deductions and exemptions have **eroded the local tax base by hundreds of millions annually**
- Each new deduction or exemption narrows the GRT base and undermines both local and state fiscal stability
    - Medical and healthcare deductions have eroded local revenues by ~$330 million annually
    - Cost of food and medical deductions also significant - ~$65 million annually for municipalities
    - 2025 proposed bills would have cut an additional $100 million statewide
- **"Death by a thousand cuts"** – some tax base erosion is significant…but even small cuts add up. Examples include:
    - *HB 252 (2024)* – GRT deductions for Medicaid home renovations, childcare, and geothermal facilities → **$12 mil**
    - *HB 278 (2021)* – GRT deduction for sales of tangible goods and services to manufacturers → **$2 mil**
    - *HB 98 (2021)* – Expansion of food sale GRT deduction to include delivered groceries → **$1 mil**
    - *SB 425 (2019)* – GRT deduction for defense-related satellite contracts → **$1.75 mil**



Source: LFC Healthcare GRT brief - RSTP Presentation, 9/30/2025

# Impacts of Some Tax Code Changes Unclear or Underestimated, Making Planning, Budgeting Difficult

- Inaccurate projections can lead to unintended, significant revenue losses
- Deduction for sales of services to manufacturers in HB 163 (2022) was projected to cost local governments ~$4 million annually but is now estimated at $56 million – 14x higher than forecast
- Cities set budgets based on projected GRT revenue; unexpected revenue drops can force rate increases, service cuts, hiring freezes
- Sometimes, individual communities or regions see significant, sometimes unanticipated impacts from tax code changes
  - Destination sourcing (2021) disproportionately impacted communities in Southeastern NM
  - Los Alamos GRT down in FY25, likely as result of B2B manufacturing deduction (2022)

➢ **Tax reform proposals should be analyzed for potential local government revenue impacts, including effects on individual communities, where feasible – overall or average impacts can disguise significant individual impacts**

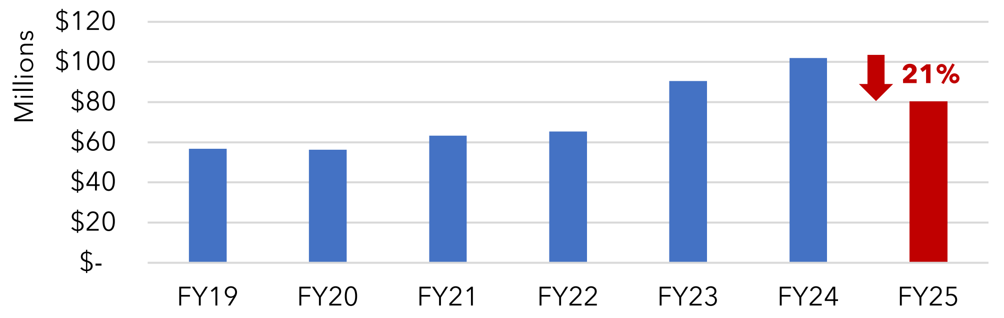
**Costs of B2B sales to manufacturers significantly underestimated**

**Fiscal Impact:**

| | Fiscal Year | 2023 | 2024 |
|---|---|---|---|
| Sales of Services to Manufacturing GRT Deduction | Taxpayers | 133 | 2,986 |
| | State General Fund Expenditure (thousands) | $698 | $84,098 |
| | Local Government Expenditure (thousands) | $446 | $56,065 |

| Estimated Revenue | | | | | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|---|---|
| FY22 | FY23 | FY24 | FY25 | FY26 | | |
| | ($5,600.0) | ($5,800.0) | ($6,000.0) | ($6,200.0) | Recurring | Section 14 B to B manufacturers-- General Fund GRT |
| -- | ($3,800.0) | ($3,900.0) | ($4,000.0) | ($4,100.0) | Recurring | Section 14 B to B -- Local Governments GRT |

**Los Alamos Annual GRT Revenue (FY19-FY25)**



# Municipalities Face Cost Pressures, Leading to Tax Increases

- **Escalating costs, significant needs** strain local budgets
  - Double-digit increases in health insurance and rising public safety pay
  - Infrastructure needs – $9 billion in unfunded municipal projects statewide[1]
- **Small towns face many of the same cost pressures** – e.g. the same road mile cost or fire truck cost – **as larger cities**, but with a fraction of the revenue
- Some municipalities have raised rates simply to keep pace with rising costs and lost tax base
- **Tax increases are limited and infrequent** – only about 6 percent of cities raise rates in a given year, usually for essential needs like EMS, utilities, or police
- **Local ability to raise rates is limited** – rate increases require a vote by elected officials or direct voter approval, ensuring that decisions reflect genuine community need (e.g. Taos County voters approved a GRT rate increase in 2022 with 74 percent voter approval to fund fire and EMS)

**Local Government GRT Rate Maximums**

| Implementation | Municipality | County-Wide | Rest of County |
|---|---|---|---|
| **By Ordinance** | 2.05% | 1.00% | 0.12% |
| **By Referendum** | 0.45% | 0.25% | 0.38% |
| **TOTAL** | 2.50% | 1.25% | 0.50% |

**Examples of Municipal GRT Rate Increases**

- Rio Communities raised its GRT rate in 2020 to fund **public safety**, raising ~$40,000
- Santa Rosa raised its GRT rate in 2020 to fund **EMS operating costs**, raising ~$320,000
- Loving raised its GRT rate in 2021 to cover **solid waste operating costs**, raising ~$800,000
- Kirtland raised its GRT rate in 2023 to fund **sewer system operating costs**, raising ~$36,000
- Taos raised its GRT rate in 2023 to **increase employee salaries**, raising ~$1.8 million

1 Based on projects identified through municipal Infrastructure Capital Improvement Plans (FY26-FY30)

# Economic Development Requires Strong Communities

- Economic development depends on thriving communities. Businesses choose to invest where there is public safety, infrastructure, and quality of life – all made possible through adequate municipal revenues
- Stable, predictable revenues are essential for cities to provide safe streets, clean water, and reliable public safety
- Tax base erosion undermines local self-sufficiency, leading to a narrower base and higher rates
- Stable state–local revenue sharing is essential to keep up with these structural cost drivers

"Due to impacts of the closure of our power plants and coal mines, and the boom-and-bust cycle of our energy market, the City of Farmington has implemented an aggressive strategy to diversify our local economy through an array of economic development initiatives. We want to be a beacon of economic growth, a place where private investment will pay dividends to this community, its families and our workforce. And right now it is clear, our collective efforts are working. However, we all know that **businesses choose to invest in cities with strong infrastructure, safe streets, and a high quality of life—all of which require adequate municipal funding**. Reducing GRT revenue risks making our cities less attractive to employers and developers, stunting our economic development initiatives."

*- Mayor Nate Duckett (Farmington), March 2025*

# Thank You!

## Questions?

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