FISCAL IMPACT REPORT

SPONSOR: Lujan DATE TYPED: 2/11/03 HB 419/aHTRC

SHORT TITLE: Issuance of Industrial Revenue Bonds SB

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	NFI			

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment changes the public notification requirement back to thirty days prior to a hearing (current law). The amendment also requires municipalities to notify the affected county when the bonds are matured or refunded.

Synopsis of Original Bill

House Bill 419 adds significant restrictions and new safeguards to the statutes governing industrial revenue bonds (IRBs). The Meeting notice requirements for municipalities are strengthened. The 200 thousand population stipulation is removed; all municipalities are now subject to the requirement. The Class A county stipulation and municipal population requirements are also removed; all counties would be subject to the requirement. The 30 day notice is expanded to 60 days, and county assessors must also be notified of contemplated IRB issuance. Additionally, the 30-year maximum bond maturity is reduced to 20 years; the accompanying property tax exemption is also reduced to 20 years.

TECHNICAL ISSUES

TRD notes that the phrase "CLASS A COUNTY" appearing in Section 3, page 4, line 10 of the proposed statute should be removed since the proposed notification changes are made more broadly applicable.

OTHER SUBSTANTIVE ISSUES

TRD makes the following tax policy arguments:

The use of industrial revenue bonds to attract potential employers to a city or county has increased dramatically in New Mexico over the last 20 years. These bonds, which confer a property tax exemption as well as a reduced interest rate, can provide significant financial benefits to firms that employ large amounts of personal property in their business. Gross receipts and compensating tax benefits are generally recognized as well.

Although local governments have found the bonds to be an important recruiting tool, a number of concerns have been raised about the potential for unintended consequences of widespread use of these incentives:

- By reducing the property tax base of commercial and industrial taxpayers, the remaining property tax burden is shifted to residential property owners;
- By reducing the property tax base, cities and counties are forced to rely more heavily on the gross receipts tax and other revenue sources;
- Although incentives are provided to encourage increased employment in the jurisdiction, companies sometimes are forced to close by economic conditions, with the result that the jobs disappear; and
- Because the bonds provide a tax exemption for the life of the bonds, the tax benefits can outweigh the economic benefits to the jurisdiction granting the tax relief.

SS/njw