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FISCAL IMPACT REPORT

ORIGINAL DATE 2/12/07

SPONSOR Gonzales LAST UPDATED _____ HB 969

SHORT TITLE Municipality Compensating Tax Distributions SB _____

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
		6,414.2	Recurring	Municipalities
		(5,131.4)	Recurring	General Fund
		(641.4)	Recurring	Small Cities Assistance Fund
		(641.4)	Recurring	Small Counties Assistance Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to HB 265 and SB 144

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Municipal League (NMML)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 969 creates a phased-in distribution to each municipality from the compensating tax. The distribution for each municipality will be equal to 1.225 percent divided by the compensating tax rate (5 percent) times total compensating tax collections times the amount of gross receipts tax collections attributable to businesses in the municipality divided by total state gross receipts tax collections.

Based on the formula described above, the distribution to municipalities will be one-third of the formula amount in FY09, two-thirds of the formula amount in FY10, and the entire amount in FY11 and beyond.

Because the bill does not state an effective date, it is assumed it will become effective 90 days after the legislature's adjournment on June 25, 2007.

FISCAL IMPLICATIONS

Based on the December 2006 consensus revenue estimate, total compensating tax collections are expected to be \$ 95.4 million in FY09, \$99.5 million in FY10, and \$103.9 million in FY11. Under current law, 80 percent of those amounts will be transferred to the general fund, 10 percent to the small cities assistance fund, and 10 percent to the small counties assistance fund.

Based on data from the Report 80: Analysis of Gross Receipts by Industry, TRD estimates that the ratio of municipal gross receipts tax collections to all gross receipts tax collections is about 82.3 percent. Based on the formula contained in the bill, municipal distributions are expected to total \$6.4 million in FY09, \$13.4 million in FY10, and \$20.9 million in FY11 when the provisions are completely phased in. The table on page 3 of this analysis details the amount of this total municipal distribution that will be allocated to each of New Mexico's municipalities.

As a result of these municipal distributions, general fund revenues will fall by \$5.1 million in FY09, \$10.7 million in FY10, and \$16.8 million in FY11. Distributions to both the small cities and small counties assistance funds will fall by \$0.6 million in FY09, \$1.3 million in FY10, and \$2.1 million in FY11.

SIGNIFICANT ISSUES

According to NMML, this bill addresses the fact that as more business is conducted via the internet, sales become taxable under the compensating tax instead of the gross receipts tax. Although municipalities receive a share of gross receipts tax revenue, they currently do not receive a share of compensating tax revenue.

ADMINISTRATIVE IMPLICATIONS

According to TRD, this bill will create significant administrative impacts. The bill will require reprogramming of the Combined Revenue System (CRS).

TRD reports that the provisions of this bill would be easier to administer if the words, "net receipts" on page 6, line 12 and line 14, were replaced with the word, "liability." Basing the distribution on net receipts would require that actual payments be matched to tax returns prior to calculating distributions to municipalities.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 969 relates to House Bill 265 and Senate Bill 144. These bills would impose local option compensating taxes to mirror all local option gross receipts taxes.

TECHNICAL ISSUES

This analysis is based on the language in the bill that bases the municipal distribution formula on net receipts of the compensating tax. If the intent was to base the municipal distribution on net compensating tax receipts to the general fund, LFC recommends adding the words "to the

general fund,” after the word “receipts” on page 6, line 11.

According to TRD, the provisions of this bill would be easier to administer if the words, “net receipts” on page 6, line 12 and line 14, were replaced with the word, “liability.”

FY09 Distribution by Municipality (\$ in thousands)

Alamogordo	114.5	Eunice	19.9	Mountainair	1.9
Albuquerque	2558.1	Farmington	394.3	Pecos	1.5
Angel Fire	12.3	Floyd	0.5	Portales	34.7
Artesia	89.5	Folsom	0.1	Questa	3.0
Aztec	28.8	Fort Sumner	2.4	Raton	24.8
Bayard	3.5	Gallup	127.3	Red River	6.1
Belen	34.0	Grady	0.1	Reserve	1.0
Bernalillo	22.2	Grants	30.1	Rio Rancho	244.1
Bloomfield	36.8	Grenville	0.0	Roswell	169.0
Bosque Farms	8.9	Hagerman	1.7	Roy	0.6
Capitan	2.6	Hatch	4.0	Ruidoso	49.6
Carlsbad	106.8	Hobbs	258.9	Ruidoso Downs	17.1
Carrizozo	1.6	Hope	0.1	San Jon	0.8
Causey	0.1	House	0.6	San Ysidro	0.4
Chama	4.6	Hurley	0.6	Santa Clara (Central)	0.6
Cimarron	1.6	Jal	4.6	Santa Fe	600.4
Clayton	6.7	Jemez Springs	0.8	Santa Rosa	13.2
Cloudcroft	4.0	Lake Arthur	0.2	Silver City	51.5
Clovis	141.6	Las Cruces	449.5	Socorro	30.3
Columbus	1.4	Las Vegas	48.1	Springer	1.5
Corona	0.3	Logan	2.4	Sunland Park	21.9
Corrales	15.6	Lordsburg	8.0	Taos	69.9
Cuba	4.3	Los Alamos	138.2	Taos Ski Valley	5.5
Deming	55.9	Los Lunas	91.0	Tatum	3.3
Des Moines	0.5	Los Ranchos de Albuq.	17.7	Texico	0.8
Dexter	4.0	Loving	1.4	Tijeras	5.6
Dora	0.8	Lovington	38.2	Truth or Consequences	14.5
Eagle Nest	1.0	Magdalena	1.5	Tucumcari	18.1
Edgewood	14.3	Maxwell	0.3	Tularosa	3.7
Elephant Butte	3.1	Melrose	0.7	Vaughn	1.6
Elida	0.7	Mesilla	6.2	Viriden	0.1
Encino	0.1	Milan	6.6	Wagon Mound	0.3
Espanola	63.5	Moriarty	14.2	Willard	0.2
Estancia	1.4	Mosquero	0.1	Williamsburg	0.4