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FISCAL IMPACT REPORT

ORIGINAL DATE 2/22/07
 SPONSOR Park LAST UPDATED 3/22/07 HB 981/aSFC
 SHORT TITLE Municipal Gross Receipts Maximum Aggregate SB _____
 ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	*See Narrative		Recurring	Municipalities
		\$1,635.7	Recurring	Municipalities
	\$288.3	(\$703.1)	Recurring	General Fund
	(\$288.3)	(\$605.4)	Recurring	Local Governments
		(\$163.6)	Recurring	Small Cities Assistance Fund
		(\$163.6)	Recurring	Small Counties Assistance Fund

(Parenthesis () Indicate Revenue Decreases)

*Note: Table reflects net effects of freezing local hold harmless distributions, municipal compensating tax distributions, and allowing municipalities to impose a higher municipal gross receipts tax.

Conflicts with HB 265, SB 144

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Municipal League (NMML)
 Department of Finance and Administration (DFA)
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SFC Amendment

Freeze Local Government Hold Harmless Distributions: The Senate Finance Committee Amendment to House Bill 981 amends Sections 7-1-6.46 and 7-1-6.47, which were enacted in

2004 as part of the legislation to create gross receipts tax deductions for food and medical services (HB 625). Those sections hold counties and municipalities harmless from the food and medical service deductions by requiring TRD to distribute to each local government an amount equal to what would have been received if the deductions did not exist. The amendment freezes the hold harmless distributions to some municipalities and counties at the tax rates that were in effect on January 1, 2007. The amendment would freeze the local government hold harmless distributions to municipalities with either a population over 10 thousand in the most recent decennial census or per capita taxable gross receipts above the statewide average in the previous calendar year at the tax rates in effect on January 1, 2007. The amendment would freeze the hold harmless distribution to counties with populations over 48 thousand at the tax rates in effect on January 1, 2007.

Municipal Compensating Tax Distribution: The amendment creates a phased-in distribution to each municipality from the compensating tax. The distribution for each municipality will be equal to the municipality's monthly taxable gross receipts, multiplied by the ratio of six months of the municipality's net compensating tax collections by six months of the municipality's taxable gross receipts, multiplied by the ratio of 1.225 percent to the compensating tax rate (5 percent). The distribution to municipalities will be 10 percent of the formula amount described above in FY09 and 30 percent of the formula amount in FY10 and beyond.

Municipal Gross Receipts Tax: The amendment changes language pertaining to imposition of the municipal gross receipts tax, the provision contained in the original bill. The amendment would allow all municipalities the choice of imposing the tax in 0.125 percent increments. Currently, municipalities with a population over 45 thousand may impose the tax in 0.125 percent increments but smaller municipalities must impose the tax in 0.25 percent increments.

The amendment also adds a July 1, 2007 effective date.

Synopsis of Original Bill

House Bill 981 increases the maximum rate of the municipal gross receipts tax that may be imposed by each municipality from 1.25 percent to 1.5 percent.

FISCAL IMPLICATIONS

Freeze Local Government Hold Harmless Distributions: The Senate Finance Committee amendment will cause a gradual shift of revenue from local governments to the general fund as local option tax rates gradually creep higher. TRD reports that in the recent past, the local option gross receipts tax rate have increased by about 0.01 percent per year. Statewide, food and medical deductions are expected to total \$3.1 billion in FY08. About 93 percent of those deductions, or \$2.9 billion, are expected to occur in counties and municipalities that will have hold harmless distribution rates frozen at January 1, 2007 levels. An additional 0.01 percent tax would cause a shift of about \$288.3 thousand (\$3.1 billion X 93% X 0.0001). The fiscal impact will grow over time as local option tax rates creep higher and the size of the deductions grows. The table above assumes rates continue to increase by 0.01 percent per year and that the deductions grow by 5 percent per year.

Municipal Compensating Tax Distribution: Based on the December 2006 consensus revenue estimate, total compensating tax collections are expected to be \$95.4 million in FY09 and \$99.5

million in FY10. 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 expects municipal distributions to total \$1,635.7 thousand in FY09 and \$5,119.3 thousand in FY10 when the distributions are completely phased in. The table on the next page 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 \$1,308.5 thousand in FY09 and by \$4,095.4 thousand in FY10. Distributions to both the small cities and small counties assistance funds will fall by \$163.6 thousand in FY09 and \$511.9 thousand in FY10.

Illustration: Estimated Municipal Compensating Tax Distribution:

Municipality:	FY 2009 Distribution	FY 2010 Distribution	Municipality:	FY 2009 Distribution	FY 2010 Distribution
Alamogordo	\$28,046	\$87,778	Lake Arthur	\$68	\$214
Albuquerque	\$673,119	\$2,106,696	Las Cruces	\$114,061	\$356,982
Angel Fire	\$3,092	\$9,678	Las Vegas	\$11,680	\$36,555
Artesia	\$23,335	\$73,034	Logan	\$567	\$1,776
Aztec	\$6,703	\$20,980	Lordsburg	\$1,957	\$6,125
Bayard	\$900	\$2,817	Los Alamos	\$37,054	\$115,969
Belen	\$8,400	\$26,291	Los Lunas	\$22,493	\$70,397
Bernalillo	\$5,886	\$18,423	Los Ranchos de Albuq.	\$4,796	\$15,011
Bloomfield	\$8,941	\$27,982	Loving	\$376	\$1,176
Bosque Farms	\$2,227	\$6,971	Lovington	\$10,237	\$32,038
Capitan	\$679	\$2,126	Magdalena	\$385	\$1,205
Carlsbad	\$27,836	\$87,121	Maxwell	\$81	\$254
Carrizozo	\$416	\$1,301	Melrose	\$181	\$566
Causey	\$19	\$60	Mesilla	\$1,512	\$4,732
Chama	\$1,145	\$3,583	Milan	\$1,565	\$4,898
Cimarron	\$433	\$1,355	Moriarty	\$3,441	\$10,770
Clayton	\$1,587	\$4,966	Mosquero	\$34	\$106
Cloudcroft	\$1,006	\$3,148	Mountainair	\$465	\$1,456
Clovis	\$33,818	\$105,842	Pecos	\$381	\$1,191
Columbus	\$341	\$1,066	Portales	\$8,108	\$25,377
Corona	\$87	\$273	Questa	\$722	\$2,260
Corrales	\$4,175	\$13,067	Raton	\$5,648	\$17,676
Cuba	\$1,163	\$3,641	Red River	\$1,404	\$4,393
Deming	\$14,181	\$44,382	Reserve	\$266	\$832
Des Moines	\$115	\$360	Rio Rancho	\$63,056	\$197,351
Dexter	\$1,063	\$3,328	Roswell	\$43,663	\$136,653
Dora	\$219	\$686	Roy	\$170	\$531
Eagle Nest	\$266	\$833	Ruidoso	\$11,358	\$35,546
Edgewood	\$3,803	\$11,902	Ruidoso Downs	\$4,462	\$13,965
Elephant Butte	\$821	\$2,568	San Jon	\$184	\$576
Elida	\$174	\$544	San Ysidro	\$122	\$382
Encino	\$29	\$92	Santa Clara (Central)	\$140	\$439
Espanola	\$14,859	\$46,505	Santa Fe	\$140,424	\$439,491
Estancia	\$346	\$1,082	Santa Rosa	\$3,081	\$9,643
Eunice	\$5,285	\$16,542	Silver City	\$12,848	\$40,211
Farmington	\$100,048	\$313,127	Socorro	\$7,841	\$24,540
Floyd	\$133	\$418	Springer	\$395	\$1,236
Folsom	\$27	\$84	Sunland Park	\$5,668	\$17,739
Fort Sumner	\$620	\$1,939	Taos	\$17,357	\$54,322
Gallup	\$29,421	\$92,079	Taos Ski Valley	\$1,311	\$4,102
Grady	\$37	\$116	Tatum	\$758	\$2,372
Grants	\$7,140	\$22,346	Texico	\$225	\$705
Grenville	\$4	\$12	Tijeras	\$1,378	\$4,312
Hagerman	\$432	\$1,352	Truth or Consequences	\$4,008	\$12,545
Hatch	\$1,029	\$3,222	Tucumcari	\$4,281	\$13,397
Hobbs	\$68,758	\$215,196	Tularosa	\$927	\$2,902
Hope	\$36	\$113	Vaughn	\$383	\$1,198
House	\$156	\$489	Virden	\$30	\$95
Hurley	\$159	\$498	Wagon Mound	\$71	\$222
Jal	\$1,210	\$3,786	Willard	\$45	\$141
			Williamsburg	\$88	\$276
			Total Muni. Distribution	\$1,635,681	\$5,119,275

Municipal Gross Receipts Tax: The fiscal impact of this provision depends on if and when municipal governments choose to impose an additional 0.25 percent municipal gross receipts tax increment. LFC analysis of data provided by TRD indicates that if all municipalities imposed an additional 0.25 percent tax, municipal gross receipts tax collections would rise by \$98.3 million in FY08 (see table below).

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Municipality	FY2008 Taxable Gross Receipts	Additional GRT From 1/4% Tax	Municipality	FY2008 Taxable Gross Receipts	Additional GRT From 1/4% Tax
Alamogordo	649,276,248	1,623,191	Lake Arthur	1,437,222	3,593
Albuquerque	15,857,185,763	39,642,964	Las Cruces	2,689,528,453	6,723,821
Angel Fire	62,377,897	155,945	Las Vegas	274,695,213	686,738
Artesia	734,584,517	1,836,461	Logan	16,844,581	42,111
Aztec	146,782,037	366,955	Lordsburg	54,212,549	135,531
Bayard	24,655,733	61,639	Los Alamos	918,402,933	2,296,007
Belen	210,091,680	525,229	Los Lunas	522,484,970	1,306,212
Bernalillo	153,982,787	384,957	Los Ranchos de Albuq.	115,889,960	289,725
Bloomfield	222,091,267	555,228	Loving	5,819,707	14,549
Bosque Farms	49,261,295	123,153	Lovington	194,794,893	486,987
Capitan	16,620,251	41,551	Magdalena	6,609,444	16,524
Carlsbad	647,619,016	1,619,048	Maxwell	1,876,155	4,690
Carrizozo	8,693,356	21,733	Melrose	5,129,146	12,823
Causey	405,805	1,015	Mesilla	39,534,582	98,836
Chama	28,706,694	71,767	Milan	29,090,373	72,726
Cimarron	10,532,272	26,331	Moriarty	77,176,313	192,941
Clayton	40,263,087	100,658	Mosquero	812,311	2,031
Cloudcroft	23,238,096	58,095	Mountainair	9,458,232	23,646
Clovis	767,322,483	1,918,306	Pecos	9,404,376	23,511
Columbus	8,456,390	21,141	Portales	195,240,013	488,100
Corona	1,605,485	4,014	Questa	16,665,739	41,664
Corrales	138,392,661	345,982	Raton	145,630,439	364,076
Cuba	34,392,859	85,982	Red River	35,206,129	88,015
Deming	255,006,788	637,517	Reserve	9,726,107	24,315
Des Moines	3,894,433	9,736	Rio Rancho	1,781,075,244	4,452,688
Dexter	23,659,945	59,150	Roswell	1,052,997,939	2,632,495
Dora	11,344,921	28,362	Roy	4,607,160	11,518
Eagle Nest	6,970,647	17,427	Ruidoso	265,240,242	663,101
Edgewood	90,871,768	227,179	Ruidoso Downs	100,411,489	251,029
Elephant Butte	24,771,067	61,928	San Jon	3,023,885	7,560
Elida	8,384,163	20,960	San Ysidro	4,244,586	10,611
Encino	717,495	1,794	Santa Clara (Central)	3,237,931	8,095
Espanola	349,069,084	872,673	Santa Fe	3,340,296,013	8,350,740
Estancia	3,150,359	7,876	Santa Rosa	71,819,802	179,550
Eunice	136,646,171	341,615	Silver City	314,402,040	786,005
Farmington	2,446,279,887	6,115,700	Socorro	176,739,901	441,850
Floyd	1,806,662	4,517	Springer	10,218,014	25,545
Folsom	976,778	2,442	Sunland Park	143,459,105	358,648
Fort Sumner	14,289,626	35,724	Taos	420,175,082	1,050,438
Gallup	695,003,680	1,737,509	Taos Ski Valley	22,064,097	55,160
Grady	640,237	1,601	Tatum	14,393,101	35,983
Grants	154,412,263	386,031	Texico	6,853,415	17,134
Grenville	132,640	332	Tijeras	29,054,081	72,635
Hagerman	9,959,335	24,898	Truth or Consequences	106,829,962	267,075
Hatch	25,690,363	64,226	Tucumcari	107,043,592	267,609
Hobbs	1,783,821,330	4,459,553	Tularosa	18,934,163	47,335
Hope	2,272,527	5,681	Vaughn	9,314,743	23,287
House	3,237,335	8,093	Virden	1,994,172	4,985
Hurley	2,208,930	5,522	Wagon Mound	843,954	2,110
Jal	30,775,173	76,938	Willard	2,051,671	5,129
Jemez Springs	4,458,325	11,146	Williamsburg	2,399,557	5,999
Total TGR			39,316,384,394		
Total Additional GRT			98,290,961		

SIGNIFICANT ISSUES

Freeze Local Government Hold Harmless Distributions: Current law requires TRD to transfer to each county and municipality an amount equal to what would have been received if the food and medical service deductions enacted in 2004 did not exist. That amount is calculated by multiplying deductions by the local option tax rate imposed in the area. These distributions are meant to hold local governments harmless from any revenue loss associated with the food and

medical deductions.

As local option tax rates creep higher, the size of the hold harmless distributions the state pays local governments grow larger. The Senate Finance Committee amendment protects the state general fund from losing additional revenue as the state's larger local governments impose higher local option gross receipts taxes.

Alternatively, the amendment limits larger local governments' ability to raise revenue through imposing higher local option gross receipts taxes. All increments imposed after January 1, 2007 would generate less revenue due to the provisions of the Senate Finance Committee amendment. Therefore, the amendment reduces the state's 2004 commitment to hold local governments harmless to the food and medical deductions.

Medical service receipts tend to grow faster than the rest of the gross receipts tax base, and food receipts are one of the more stable parts of the tax base. The amendment will therefore slightly reduce the rate of growth in larger local government gross receipts tax revenues and slightly increase revenue volatility.

Currently, New Mexico's local governments are authorized to impose up to 4.6875 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). On average, a local option gross receipts tax of about 1.6 percent is actually imposed by local governments statewide. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 6.6 percent.

Municipal Compensating Tax Distributions: According to NMML, this provision 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.

Municipal Gross Receipts Tax: Revenue raised by the municipal gross receipts tax is not restricted, but may be dedicated for a specific purpose including but not limited to police protection, fire protection, public transportation or street repair and maintenance. Imposition of the tax requires approval by the majority of a municipality's voters.

Under current law, New Mexico's local governments are authorized to impose up to 4.6875 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). On average, a local option gross receipts tax of about 1.6 percent is actually imposed by local governments statewide. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 6.6 percent.

ADMINISTRATIVE IMPLICATIONS

Freeze Local Government Hold Harmless Distributions: Implementation of the food and medical deductions has been unusually complicated and expensive for TRD because of the programming needed to do hold harmless distributions for local governments. Increasing the list of food items eligible for the food gross receipts tax deduction will increase the cost of administering the local hold harmless distributions.

Municipal Compensating Tax Distributions: According to TRD, municipal compensating tax

distributions will create significant administrative impacts and will require reprogramming of the Combined Revenue System (CRS).

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The Senate Finance Committee amendment inserts provisions similar to those found in Senate Bill 1182. Senate Bill 1182 freezes the local hold harmless rate for all local governments at the tax rate imposed on January 1, 2007.

House Bill 981 conflicts with House Bill 265 and Senate Bill 144, which also amend Section 7-19D-9 NMSA 1978 to impose local option compensating taxes that mirror each existing local option gross receipts tax.

SS/mt