# F I S C A L   I M P A C T   R E P O R T

**SPONSOR** Strickler **ORIGINAL DATE** 2/27/07 **LAST UPDATED** 2/28/07 **HB** 1149/aHBIC

**SHORT TITLE** Public Utility Water & Sale Gross Receipts **SB**

**ANALYST** Schardin

## REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| FY07 | FY08 | FY09 | | |
| | ($79,200.0) | | Recurring | General Fund |
| | ($52,800.0) | | Recurring | Local Government |

(Parenthesis ( ) Indicate Revenue Decreases)

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
New Mexico Finance Authority (NMFA)
Youth Conservation Corps (YCC)
Taxation and Revenue Department (TRD)

**SUMMARY**

Synopsis of HBIC Amendment

The House Business and Industry Committee amendment to House Bill 1149 strikes Section 1 of the original bill, which would have removed water and wastewater receipts from the governmental gross receipts tax base. Removing those receipts from the governmental gross receipts tax would have violated the non-impairment clause of bonds issued by NMFA and DCA secured by governmental gross receipts tax revenue (Section 7-1-6.38 NMSA).

Synopsis of Original Bill

Section 1 of the original bill deletes language in Section 7-9-3.2 so that receipts from the sale of water by a utility owned or operated by a county, municipality or other state political subdivision will no longer be subject to the governmental gross receipts tax.

Section 2 of the original bill creates a new gross receipts tax deduction from receipts from the sale of electricity, natural gas or water by a public utility. A public utility eligible for the deduction is defined as a person that owns, operates, leases or controls a plant, property or facility 1) for the generation, transmission or distribution, sale or furnishing of electricity to the public; 2) for the manufacture, storage, distribution or furnishing to the public of natural, manufactured or liquefied petroleum gas; 3) for the supplying, storage, distribution or furnishing of public water for manufacturing, municipal or domestic uses (not including irrigation systems).

The effective date of these provisions will be July 1, 2007.

## FISCAL IMPLICATIONS

TRD estimates that the tax base eligible for the proposed gross receipts tax deduction, while volatile, will be about $2 billion per year. Taxed at a statewide rate of 6.6 percent, the proposed deduction would decrease gross receipts tax collections by about $132 million per year. About 60 percent of that loss would accrue to the general fund and the remaining 40 percent to local governments.

## SIGNIFICANT ISSUES

LFC cautions against gross receipts tax deductions that significantly narrow the tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

The bill will significantly reduce local government gross receipts tax collections. Many of New Mexico's local governments are highly dependent on gross receipts tax revenue.

## ADMINISTRATIVE IMPLICATIONS

There will be no major administrative impacts on TRD.

SS/nt