

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 01/20/10
 LAST UPDATED 01/26/10 **HB** 42/aHGAC

SPONSOR Martinez, R.

SHORT TITLE Municipal Environmental Services Gross Receipts **SB** _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	FY12		
	\$0 - \$148,927.0	\$0 - \$157,119.0	Recurring	Municipalities
	(\$1,634.0) - \$0	(\$1,724.0) - \$0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to HB30.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HGAC Amendment

The Health and Government Affairs Committee amendment to House Bill 42 adds an effective date of July 1, 2010.

Synopsis of Original Bill

House Bill 42 amends Section 7-19D-10 NMSA 1978 to allow the governing body of a municipality to enact an ordinance imposing an excise tax not to exceed 0.5 percent which shall be imposed in 1/16 percent increments if imposed at a rate of less than 0.5 percent. Currently the municipal environmental services gross receipts tax only authorizes an imposition of 0.0625 percent.

Because no effective date is provided in the bill, its provisions will become effective ninety (90) days after the 2010 legislative session adjourns.

FISCAL IMPLICATIONS

The fiscal impact of this bill depends on if and when the municipalities choose to impose the environmental services gross receipts tax. To illustrate the potential fiscal impacts of the bill, the table below shows the amount of revenue that could be generated by each municipality if the newly allowed additional 7/16 percent (0.4375%) environmental services gross receipts tax is imposed in FY11. Eighty-one municipalities already impose the tax (at 1/16 percent) and this estimate assumes all municipalities will impose the full 1/2 percent increment of the tax. About \$148.9 million could be generated by municipalities if all fully impose the tax in FY11.

Illustration of Potential Revenue from Additional Municipal Local Option Increments - Fiscal Year 2011

Municipality	Potential Revenue: 1/2% Municipal Environment GRT Increment	Potential General Fund Loss Due to Hold Harmless Distribution: 1/2% Municipal Environment GRT Increment	Municipality	Potential Revenue: 15/16% Municipal Environment GRT Increment	Potential General Fund Loss Due to Hold Harmless Distribution: 15/16% Municipal Environment GRT Increment
Alamogordo	2,079,426	Hold Harmless Rate Frozen	Las Cruces	9,519,877	Hold Harmless Rate Frozen
Albuquerque*	62,181,752	Hold Harmless Rate Frozen	Las Vegas	1,097,131	Hold Harmless Rate Frozen
Angel Fire	304,633	Hold Harmless Rate Frozen	Logan	55,606	(8,694)
Artisia	2,730,959	Hold Harmless Rate Frozen	Lordsburg	238,826	(15,675)
Aztec	677,627	(89,531)	Los Alamos	7,289,393	Hold Harmless Rate Frozen
Bayard	77,237	(13,318)	Los Lunas	1,358,596	Hold Harmless Rate Frozen
Belen	684,862	(150,517)	Los Ranchos De Albuquerque*	433,323	(22,853)
Bernalillo	617,199	(177,926)	Loving	63,122	(5,028)
Bloomfield*	1,216,206	(13,237)	Lovington*	1,124,758	(99,370)
Bosque Farms	145,288	(7,694)	Magdalena	27,952	(4,490)
Capitan	56,143	(19,995)	Maxwell*	6,448	-
Carlsbad	3,065,350	(358,886)	Melrose	22,003	(1,760)
Carrizozo	27,283	Hold Harmless Rate Frozen	Mesilla	135,630	(6,372)
Causey*	1,363	-	Milan	276,889	(26,849)
Chama	93,061	(12,486)	Moriarty	287,704	Hold Harmless Rate Frozen
Cimmaron	39,581	(39)	Mosquero	8,581	(8)
Clayton	227,892	(26,309)	Mountainair	65,763	(483)
Cloudcroft	90,650	Hold Harmless Rate Frozen	Pecos	50,089	(4,463)
Clovis	2,679,417	Hold Harmless Rate Frozen	Peralta	64,465	(1,322)
Columbus	37,168	(2,667)	Portales	718,329	Hold Harmless Rate Frozen
Corona	17,933	-	Questa	50,088	(5,211)
Corrales	286,599	(2,290)	Raton	464,558	(55,133)
Cuba	93,768	Hold Harmless Rate Frozen	Red River	158,220	Hold Harmless Rate Frozen
Deming*	1,059,290	Hold Harmless Rate Frozen	Reserve	22,342	(4,107)
Des Moines	11,877	Hold Harmless Rate Frozen	Rio Rancho	3,995,344	Hold Harmless Rate Frozen
Dexter*	113,180	(9,041)	Roswell	3,784,238	Hold Harmless Rate Frozen
Dora*	4,804	Hold Harmless Rate Frozen	Roy	11,560	(2,007)
Eagle Nest	28,210	(14)	Ruidoso	1,012,651	(53,568)
Edgewood*	430,640	Hold Harmless Rate Frozen	Ruidoso Downs	349,447	Hold Harmless Rate Frozen
Elephant Butte*	99,748	(2,337)	San Jon	19,246	-
Elida	9,565	(1,769)	San Ysidro*	20,854	(2,764)
Encino	2,069	-	Santa Clara	72,478	(30)
Espanola	1,072,630	Hold Harmless Rate Frozen	Santa Fe	11,418,406	Hold Harmless Rate Frozen
Estancia	110,592	(9,030)	Santa Rosa	283,170	Hold Harmless Rate Frozen
Eunice	679,664	Hold Harmless Rate Frozen	Silver City	1,053,594	Hold Harmless Rate Frozen
Farmington	8,538,379	Hold Harmless Rate Frozen	Socorro	559,961	(99,110)
Floyd*	13,412	Hold Harmless Rate Frozen	Springer	35,672	(3,853)
Folsom	624	-	Sunland Park	429,939	Hold Harmless Rate Frozen
Fort Sumner	66,659	(10,294)	Taos	1,287,450	Hold Harmless Rate Frozen
Gallup	2,485,549	Hold Harmless Rate Frozen	Taos Ski Valley	139,532	Hold Harmless Rate Frozen
Grady	9,224	-	Tatum	50,560	(7,188)
Grants	669,977	(112,158)	Texico	26,603	(3,040)
Grenville	2,750	-	Tijeras*	158,614	Hold Harmless Rate Frozen
Hagerman	48,605	(3,820)	Truth or Consequences	385,299	(70,871)
Hatch	95,252	(23,019)	Tucumcari	395,815	(50,260)
Hobbs	6,568,069	Hold Harmless Rate Frozen	Tularosa	82,771	(15,487)
Hope*	5,633	-	Vaughn	24,594	(3,049)
House	7,754	Hold Harmless Rate Frozen	Virden*	3,784	-
Hurley	41,101	-	Wagon Mound	8,333	(360)
Jal	116,639	(13,634)	Willard	19,503	-
Jemez Springs	18,877	(472)	Williamsburg	8,118	-
Lake Arthur*	8,386	-	TOTAL ALL MUNIS	\$148,927,786	(\$1,633,889)

*These municipalities have not yet imposed the 1/16% municipal GRT allowed under current law
Source: TRD, RP500 & enactment dates of local option taxes as of January 2010

The table above also indicates the potential general fund revenue loss that will occur if all municipalities fully impose this tax in FY11. The food and medical gross receipts tax deductions enacted in 2004 include “hold harmless” provisions to protect local governments from associated revenue losses. In 2007, legislation froze the tax rate at which some local governments are held harmless from the food and medical deductions. However, in smaller cities, the general fund hold harmless distribution grows larger when higher local option taxes are imposed. The table

above shows the general fund revenue loss will be about \$1.6 million in FY11 if all municipalities choose to fully impose the tax. Fiscal impacts are expected to grow by 5.5 percent in FY12, 4.7 percent in FY13 and 4.4 percent in FY14, which is the rate at which the December 2009 consensus revenue estimate expects gross receipts tax collections to grow.

SIGNIFICANT ISSUES

New Mexico's municipalities and counties are authorized to impose over 4 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 2.2 percent is actually imposed by local governments statewide. Combined with the state gross receipts tax of 5 percent, the average statewide tax rate is therefore 7.2 percent.

Under current law, the municipalities of Ruidoso and Ruidoso Downs can impose a maximum municipal environmental services gross receipts tax of 0.5625 percent, whereas the maximum for all other municipalities is 0.0625 percent (Laws 2009, Chapter 284).

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

RELATIONSHIP

This bill relates to HB30 which is amending Section 7-19D-12 NMSA 1978 to allow all municipalities to impose the capital outlay gross receipts tax regardless of whether the municipal gross receipts tax and infrastructure gross receipts tax have been fully imposed.

OTHER SUBSTANTIVE ISSUES

Out of state vendors pay tax at a 5 percent rate. As local rates increase, this increases the tax advantage of shopping out of state thereby decreasing state and local revenue (sometimes to zero revenue if there is no nexus).

BLG/svb:mew

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc