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

		ORIGINAL DATE	3/4/15		
SPONSOR	SPAC	**LAST UPDATED**		**HB**	
SHORT TITLE	Public Peace, Health, Safety & Welfare – Hold Harmless Reduction Exemptions			**SB**	712/SPACs
				ANALYST	van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
$0.0	($490.0)	($1,020.0)	($1,590.0)	($2,200.0)	Recurring	General Fund
$0.0	$490.0	$1,020.0	$1,590.0	$2,200.0	Recurring	Local Governments

(Parenthesis ( ) indicate revenue decreases

Conflicts with SB 101, SB 266, SB 274, SB 555, SB 621, SB 633; HB 421.

SOURCES OF INFORMATION
LFC Files

Responses Received From
None

SUMMARY

Synopsis of Bill

Senate Bill 712 amends current law to increase the population threshold for municipalities that would require the municipalities' hold harmless payments to be phased out. Current law provides a municipality is subject to the phaseout if its population is 10 thousand or more, this bill increases that threshold to 12,500.

The effective date of this bill is July 1, 2015.

FISCAL IMPLICATIONS

The bill would have negative impact on the general fund, and a positive impact on local governments as compared with the status quo.

The raised threshold would mean that the six municipalities identified below are no longer subject to the hold harmless phaseout. The LFC staff estimate of the fiscal impact in the revenue table, then, is these municipalities' FY14 hold harmless payments, increased by the growth rate of the food and medical deduction forecast, multiplied by the percentage by which these payments would have been phased out. The analysis assumes these municipalities do not impose the municipal hold harmless GRT, which would make them subject to the phaseout.

Municipality	2010 Population	2014 HH Payment
Artesia	11,484	$1,334,346
Espanola	10,190	$1,425,070
Los Alamos	12,019	$2,000,620
Lovington	11,550	$471,569
Portales	12,497	$855,093
Silver City	10,273	$1,630,310

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the reduction in general fund revenue pursuant to this bill, revenues may be insufficient to cover growing recurring appropriations.

SIGNIFICANT ISSUES

NMML reports GRT revenue is the single most important revenue source to municipalities, representing up to 75 percent of a municipality's general fund revenues. The general fund of a municipality, like the general fund of the state, is the funding source for basic services such as police protection, fire protection, parks and recreation, cultural attractions and libraries to name a few. NMML states these services could be negatively impacted by the phase out of the hold harmless distribution.

OTHER SUBSTANTIVE ISSUES

In October 2013, staff of the Legislative Council Service, the LFC, the Department of Finance and Administration, the Taxation and Revenue Department, and the New Mexico Tax Research Institute met with representatives of the New Mexico Municipal League (NMML) and the New Mexico Association of Counties (NMAC) to discuss issues related to the phase-out of the food and medical hold-harmless distribution and the local option hold harmless GRT rate authority created in Laws 2013, chapter 160. The group discussed issues with the implementation of that legislation and policy options to address them. The main issues and respective options were:

- "Stacking" county and municipal 3/8 percent GRT authority as authorized under current statute could result in a 3/4 percent GRT rate increase in municipalities.

  The increase in the GRT could result in high rates in some municipalities. One option to address this issue is to amend statute to limit the imposition of the county option GRT to "rest of county." However, this could result in county hold harmless local option GRT revenue being insufficient to make up for lost hold harmless revenue. TRD analysis shows that, under this option, seven counties would not generate sufficient revenue to replace their hold harmless distributions, including four counties large enough to be automatically phased out. This option could be fine tuned to limit one or two of the authorized 1/8 percent increments imposed by counties to "rest of county" areas.

- Timing differences between the GRT imposition and the hold-harmless phase-out could result in local governments receiving a windfall during the phase-out period.

Amending statute to "offset" the windfall could provide an incentive to impose a lower rate or to defer tax impositions until the additional money is needed to meet the loss from the hold harmless phase-out. This could be accomplished by accelerating the phase-out of hold harmless distributions to local governments in the event that the local option GRT revenue would exceed the hold harmless payments. Another option is to limit the imposition of local option GRT to the increment necessary to make up for lost hold harmless revenue.

- For some municipalities a 3/8 percent rate increase is not sufficient to make up for lost hold harmless revenue

  Per TRD's analysis during the interim, several municipalities would face a net revenue loss after the hold harmless phase-out, even after imposing the maximum 3/8 percent GRT. Revenue shortfalls would not occur until later in the phase-out of the hold harmless distribution, and municipalities could generate excess revenue early in the phase-out by imposing the local option GRT increase. The timing of the phase-out could give local governments time to adjust budget priorities to prepare for an eventual reduction in revenue.

- Referendum vs. no referendum for imposition of local option GRT. Should the imposition be subject to referendum either by request of the local governing body or by petition of the voters?

  Statute changes to allow the imposition of any local option GRT increase to be subject to local referendum could be implemented in several ways. One option is to make any local option GRT imposition subject to referendum, while another option is to allow referendum on GRT increments that would generate revenue in excess of the reduction in the hold harmless distribution.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

PvM/aml/bb