FISCAL IMPACT REPORT

		LAST UPDATED	3/5/23
SPONSOR	STBTC	**ORIGINAL DATE**	2/7/23
SHORT TITLE	GRT Distribution to Hobbs	**BILL NUMBER**	CS/Senate Bill 157/STBTCS
		ANALYST	Torres

APPROPRIATION*
(dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY23	FY24		
$25,000.0		Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent version of this legislation.

Relates to House Bill 176 and Senate Bill 292

Sources of Information
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
New Mexico Attorney General (NMAG)

SUMMARY

Synopsis of STBTC Substitute for Senate Bill 157

The Senate Tax, Business and Transportation Committee substitute for Senate Bill 157 (SB292/STBTCS) appropriates $25 million from the general fund to the Local Government Division of the Department of Finance and Administration for the benefit of the city of Hobbs for expenditure in FY23 and subsequent years to compensate the municipality for the loss of gross receipts tax revenue due to changes in tax law. This bill does not contain an effective date, and as a result, would go into effect June 16, 2023, (90 days after the Legislature adjourns) if signed.

FISCAL IMPLICATIONS

The appropriation of $25 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY23 shall not shall revert to the general fund.

In analysis of the transition to destination-based sourcing of the gross receipts tax—an approach that bases the tax on the rates of the location where the good or service is used rather than on the rates of the location of its source—LFC staff found nearly all municipalities have experienced growth in gross receipts tax revenues. However, for Hobbs, the decrease in service activity resulting from destination-based sourcing (DBS) has exceeded the gain from the inclusion of remote sales. In the case of Hobbs, the current estimated monthly decrease is about $1.9 million. These estimates change based on taxpayer behavior, reporting, and in estimating the alternative baseline.

SIGNIFICANT ISSUES

As noted by the Taxation and Revenue Department:

> The new appropriation proposed by this bill aim at balancing the fiscal revenue of the city of Hobbs, which claims it has lost revenue due to the tax policy change of destination-sourcing at the state level. That change has affected the city of Hobbs due to the region's unique reliance on the oil and natural gas industry. More specifically, oil and natural gas GRT receipts that were originally sourced to the city under origin-based sourcing rules have now been sourced to Lea County and other area counties, and the city of Hobbs has seen its revenues grow more slowly than would be anticipated in a moment in which the municipal sector has experienced decreased revenues, increased services demand, and general budgetary constraints due to the Covid-19 pandemic. Thus, the bill seeks to secure resources for the city of Hobbs to continue its programs and initiatives, and to grant revenue to the city that it claims it would have received, but for the change to destination sourcing.
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> However, it is still too soon to anticipate how the city of Hobbs and, in general, the municipal sector will perform after the pandemic, the broadening of the tax base to include internet sales, and continued growth of the oil and natural gas industry. Fiscal revenues will stabilize as the pandemic and the programs created to control it recede. Also, it takes time for the municipalities' unique service and structure characteristics to respond to the new incentives promoted by the changes in GRT rules. This tax policy change will bring alterations in tax efficiency and effectiveness that require time to be assessed.
>
> In addition, tax policies in the state are built on the principle of equity, which tries to ensure that all local governments face the same tax regime. Compensating cities for losses based on particular circumstances could set a negative precedent that could be used in many other cases…

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.

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