FISCAL IMPACT REPORT

		LAST UPDATED	3/4/23
SPONSOR	Hamblen/Ortez	**ORIGINAL DATE**	2/6/23
SHORT TITLE	Metro Development Act Changes	**BILL NUMBER**	Senate Bill 251/aSTBTC/aSFC
		ANALYST	Graeser

REVENUE*
(dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25	FY26	FY27		
		Initial revenue diversions on the order of ($1,000.0) or more per project followed by smaller diversions for 20 years			Recurring	General Fund
		Initial revenue diversions on the order of ($800.0) or more per project followed by smaller diversions for 20 years			Recurring	Sponsoring Counties and Municipalities

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

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund(s) or Agency Affected
	$1,426.8	--	$1,426.8	**Nonrecurring**	TRD – ITD Contractual Resources
	$115.5	--	$115.5	Nonrecurring	TRD – ITD Staff Workload
	--	$173.3	$173.3	Recurring	TRD – ITD Staff Workload
	$31.0	--	$31.0	Nonrecurring	TRD – ASD Staff Workload
	--	$88.4	$88.4	Recurring	TRD – OOS FTE
	$1,562.3	$251.7	$1,814.1		TRD Total

Sources of Information

LFC Files

Responses Received From
Economic Development Department (EDD)
Department of Finance and Administration, Board of Finance (DFA/BOF)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SJC amendment to Senate Bill 251

The Senate Judiciary Committee amendment Senate Bill 251 adds two more layers of approval before a Metropolitan Redevelopment Authority could be granted a state increment for selling MRA bonds. The Board of Finance (BOF) is required to condition the approval of a state increment on legislative approval and that the bonds backed by the state increment be issued no later than four years after BOF approval. In similar fashion to the layers of approval required for a Tax Increment Development District to be granted a state increment, an MRA must have the state increment approved by BOF, the New Mexico Finance Authority, and the Legislature.

Synopsis of STBTC amendment to Senate Bill 251

The Senate Taxation, Business and Transportation Committee amendment to Senate Bill 251 changes the effective date from July 1, 2023, to July 1, 2024. This change accommodates TRD's request because of the complexity of the provisions of this bill.

Synopsis of Senate Bill 251

Senate Bill 251 amends the Metropolitan Redevelopment Code to expand on the tax increment financing (TIF) mechanisms for funding metropolitan redevelopment projects. The bill would allow a municipality or county to dedicate up to 75 percent of each entity's local option gross receipts tax increment over the current adjusted base to fund directly or to bond for construction or reconstruction of properties within the dedicated metropolitan redevelopment area. This expansion of revenues would also include up to 75 percent of state gross receipts tax imposed on the increase in business activity in the district. These expansions add to the currently allowed property tax increments as a funding source.

Approval of the municipality's and county's gross receipts tax revenue dedication must be approved by each entity's governing body, while the state gross receipts tax revenue dedication must be approved by BOF.

The bill also sets forth requirements for TRD to establish a base gross receipts tax revenue amount to calculate increases that would be eligible for the increment dedication and timeline and notification requirements for revenues and approved increment dedications.

Miscellaneous provisions of the bill include:

- Removing authority to issue bonds payable from property tax revenue;
- Removing a requirement for a sealed bidding procedure and approval of award of contract by a local government for certain rehabilitation contracts between private property owners and contractors;
- Allowing a local government to delegate to a metropolitan redevelopment agency the power to approve loans, grants, and leases of more than one year's duration;
- Excluding base year construction receipts from the incremental base calculation but including construction in the calculation year.

Many of the bill's provisions mirror those of the Tax Increment for Development District Act (5-15-1 NMSA 1978 et. seq.), which was first enacted in 2006 and has resulted in a number of large-scale development projects involving diversions of state gross receipts tax revenues. Those projects include Mesa del Sol, Winrock Center, and Taos Ski Valley redevelopment.

Per STBTC amendment, the effective date of this bill is July 1, 2024. This acknowledges TRD's request for this as a due date because of the complexity of the provisions of the bill. The earliest a county or municipality could implement a diversion of a local option GRT would be July 1,

2024. Approval by BOF of a diversion of state gross receipts tax could possibly occur on or before July 1, 2024.

FISCAL IMPLICATIONS

The fiscal impacts of the bill are indeterminate but negative for the general fund in the short run and positive in the long run. The actual fiscal impact will be dependent on (1) the number of municipal redevelopment projects that would seek dedication of local government and state increment, (2) which projects would seek increment from both local governments (municipal and county) and the state, and (3) the increment (percentage) dedication approved by any local government or the state (up to 75 percent). Based on these factors, dedication of gross receipts tax increment could have significant impacts on the residual gross receipts tax revenues available to the local governments and the state.

For FY22, the state supported four tax increment development districts (TIDDs) with dedicated state GRT revenue: Mesa Del Sol, Winrock Center, Taos Ski Valley, and Lower Petroglyphs. Five other projects divert city or county GRT revenue, but not state GRT. These include Santolina, the Village at Rio Rancho, Las Diamantes (Rio Rancho), South Campus, and Stonegate. South Campus may be applying in this session for legislative approval of the state increment.

In FY22, these projects received funding as follows:

Funding Source	Amount
State GRT	$13,406,465
Municipal GRT	$7,039,497
County GRT	$1,211,383

Mesa Del Sol TIDD received about 48 percent of this total, Winrock town center about 47 percent and Taos Ski Valley about 5 percent. Lower Petroglyphs received a fraction of a percent.

It has been estimated the cost of developing a major project plan and getting a TIDD approved could exceed $500 thousand. This proposal appears to be somewhat more streamlined, but applications will be limited to larger projects. One notable difference is that 5-15-15D NMSA 1978 establishes four criteria to which a TIDD must conform prior to approval. This bill only requires one of these elements. In addition, the Board of Finance has published a strong set of criteria and required estimates and calculations. The Board of Finance could mirror these TIDD rules for MRAs if it became necessary.

To illustrate the potential fiscal impact, the chart below looks at a hypothetical $25 million project in Las Cruces in Doña Ana County and a similar hypothetical $15 million project in Taos in Taos County. In the illustration, the cities and counties in both instances will approve the full 75 percent diversion, as will the state Board of Finance approve the full 75 percent state diversion. Thereafter, the projects will generate taxable gross receipts as shown below. If 75 percent of the revenues are diverted, 25 percent of the incremental gross receipts are received by the jurisdictions, including the state. Notably, after 20 years when the bonds have been paid off, all the jurisdictions will receive 100 percent of the incremental tax revenues.

Example Fiscal Impacts of SB251 Y1-YR5 in Las Cruces and Taos									
	Rate				YR 1	YR 2	YR 3	YR 4	YR 5
	Percent				Impact ($1,000s)				
Las Cruces	1.9375	Construction Phase	$25,000,000	75%	(363.0)	(34.0)	(34.0)	(34.0)	(34.0)

Doña Ana	1.2500	Annual GRT	$4,500,000	75%	(234.0)	(22.0)	(22.0)	(22.0)	(22.0)
Muni State Share	1.2250	Annual Base	$1,000,000	75%	(230.0)	(21.0)	(21.0)	(21.0)	(21.0)
State Residual FY24 et seq	3.6500			75%	(684.0)	(64.0)	(64.0)	(64.0)	(64.0)
	8.0625								
Taos	1.6875	Construction Phase	$15,000,000	75%	(190.0)	(19.0)	(19.0)	(19.0)	(19.0)
Taos County	1.8750	Annual GRT	$2,700,000	75%	(211.0)	(21.0)	(21.0)	(21.0)	(21.0)
Muni State Share	1.2250	Annual Base	$500,000	75%	(138.0)	(13.0)	(13.0)	(13.0)	(13.0)
State Residual FY24 et seq	3.6500			75%	(411.0)	(40.0)	(40.0)	(40.0)	(40.0)
	8.4375								

EDD notes the following fiscal issues:

New amendments to the MR Code in SB251 Section (3-60A-23 B) would allow a local government to add a provision to an adopted Metropolitan Redevelopment Area (MRA) Plan and adopt a resolution to dedicate up to seventy-five percent of a property tax increment or gross receipts tax increment within a MRA to fund metropolitan redevelopment projects. Amendments in SB251 would also allow local governments to request the use of state gross receipt increments. The approval process for state gross receipt increments would be approved by a resolution from the State Board of Finance, based on a review of the applicable MRA Plan, how the intended use of state gross receipt increments within the MR Area will meet the required goals of the MRA Plan, and a determination that use of state funds is reasonable and in the best interest of the state.

There are no immediate fiscal implications as the portion of the increase in property tax revenues and the portion of the increase in both local and state gross receipts would only come from future increases in property and gross receipt tax revenues that go beyond a previously establish baseline. Additionally, the passing of SB251 would not automatically allocate future state gross receipt tax revenue increments within Metropolitan Redevelopment Areas as local governments with MRA's would have to request to use these state funds, and approval would have to come from a resolution adopted by the State Board of Finance.

DFA/BOF comments:

The fiscal impact of the bill are unable to be fully quantified, as it is dependent on (1) the number of municipal redevelopment projects that would seek dedication of local government and state increment, (2) which projects would seek increment from both local governments (municipal and county) and the state, (3) and the increment (percentage) dedication approved by any local government or the state (up to 75 percent). Based on these factors, dedication of gross receipts tax increment could have significant impacts on the gross receipts tax revenues freely available to the local governments and state.

SIGNIFICANT ISSUES

While TIDDs and TIFs are not usually classified as tax expenditures, LFC staff are concerned about this proposal for two reasons: (1) The provisions of this bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures and proposals such as this, revenues may be insufficient to cover growing recurring appropriations. (2) This TIF proposal, similar to the existing TIDD act, allows local governments to control the amount of revenue available for the state to appropriate.

The Board of Finance is required to approve or reject a proposal from a local government that will affect state revenues for 20 or more years. The proposals will use best-guess estimates of development absorption but can only approximate any adverse effects from changes in citizen purchasing patterns or details of the development characteristic. As noted below, DFA/EAU lists some of the requirements that a project that is in the state's best interest must either export goods and services (such as manufacturing or tourism) or must stimulate population and income growth that would not occur without the project. These are difficult issues to analyze as experience with TIDDs has shown.

EDD provides a historical perspective and tie to this proposal:

> The current Metropolitan Redevelopment Code allows for the adoption of a Tax Increment Financing (TIF) district/fund to capture the incremental increase in revenue from real estate property taxes within a Metropolitan Redevelopment Area (MRA) to fund metropolitan redevelopment projects. When a local governing body adopts a TIF district, a baseline in property tax revenue is established and moving forward the baseline tax revenue continues to flow to all jurisdictions but the increase beyond the baseline is transferred to a fund to support redevelopment projects within a Metropolitan Redevelopment Area for up to 20 years. The main provision of SB 251 builds on the current TIF method by adding options to also capture a portion (up to 75 percent) of the increase in local and state gross receipts revenue within a MRA to fund metropolitan redevelopment projects.
>
> There are currently 30 local communities associated with New Mexico Economic Development Department's New Mexico MainStreet program that have adopted Metropolitan Redevelopment Areas Plans. A Metropolitan Redevelopment (MR) Area is a designated area within a municipality that has been targeted for rehabilitation, redevelopment, and private investment to stimulate economic development and community building. The designation of an MRA and subsequent development of an MRA plan provides additional redevelopment tools that enable public/private partnerships and allows for the contribution of Public Resources to Private Redevelopment projects.
>
> Tax Increment Financing is one of the best tools available in the Metropolitan Redevelopment Code to fund local MR projects; however, only two of the thirty New Mexico MainStreet communities with MRA Plans, Silver City and South Valley (Bernalillo County), have active Tax Increment Financing Districts. The reason for this is the limited amount of funds generated in a TIF district under the current MR Code that only allows for the use of the increases in property taxes. Other neighboring states such as Colorado, Arizona, Texas, and Oklahoma allow for the use of incremental property tax increases and incremental local and state gross receipt tax revenue which creates on average about 80 percent more revenue over the life of a TIF district than what the current New Mexico Metropolitan Redevelopment statute allows.

DFA/BOF notes:

> For the state to dedicate a portion of its gross receipts tax revenues to a municipal redevelopment project, it should be evidenced the state will receive gross receipts tax revenues it would not otherwise have received were it not for the redevelopment project. This is typically measured by revenues generated from sales of goods and services to

persons/entities outside of the state and/or generation of additional population that would not have otherwise occurred that would increase gross receipts tax revenues.

The bill does not address how a redevelopment project would need to evidence gross receipts tax revenues that are new to the state. This is important to consider and have reflected in the bill for the state to provide a dedication. Further, the bill does not provide detail on what else the State Board of Finance should consider in reviewing requests for state gross receipts tax increment, beyond whether the project is in the best interest of the state. Given the need to ensure that state increment is provided for projects that general new benefits to the state, the lack of specific methods for measuring impact could leave room for inconsistent consideration by the State Board of Finance, and even for the local entities.

For reference, the Tax Increment Development Act, 5-15-1 NMSA 1978, provides specific provisions for how the State Board of Finance measures new gross receipts activity. It would be helpful to have the bill reflect the same or similar considerations for the Board of Finance for use in measuring the impact to the state of a redevelopment project. This would streamline the process and reduce any inconsistencies in considering increment dedication requests and any conflicts between acts that provide for gross receipts tax increment for development/redevelopment projects.
Requests for gross receipts tax increment dedication from the state require extensive review by the Economic Analysis Unit (EAU) of the Department of Finance and Administrations and State Board of Finance staff. During various times of the year, the EAU and State Board of Finance have critical responsibilities with strict deadlines and are unable to review applications. While the bill does not need to address timeline for applications, as that would fall under administrative rule, it should be expected that applications for state gross receipts tax increment dedication would take several months.

The bill does not include any requirements for metropolitan redevelopment areas that receive increment to report on the use of dedicated increment, the redevelopment plans after receiving increment dedication, or the terms of any bond issuance, which reflects indebtedness of the local public body. This can lead to a lack of transparency on the use and management of public funds, particularly when the increment is provided for a plan as opposed to a finalized redevelopment project. The inclusion of a reporting requirement would allow for transparency and follow-up on the use of the public funding dedication to ensure accountability as well as oversight on the incurrence of debt by the local body.

DFA, in a separate analysis notes the following:

SB251 allows Metropolitan Redevelopment to issue general obligations bonds payable from local options and gross receipt tax (GRT) revenue in lieu of property taxes. Also, it alleviates current requirements for seal bidding procedures, giving them the freedom to award certain rehabilitation contracts between private property owners and contractors. In addition, giving the Metropolitan Redevelopment Agency the power to approve loans, grants, and leases for more than one year’s duration.

This bill will require the State’s General Service Procurement Department to review and approve the removal of the state required sealed bid procedures to be replaced with contract awards methodology.

> [R]eporting requirements for any metropolitan redevelopment project that receives state gross receipts tax increment is necessary for ensuring transparency of the ultimate use of increment revenues once the local governing body issues bonds/notes and the project is developed/implemented.

TRD has similar policy comments:

> As this proposal is similar to the Tax Increment Development District (TIDD) laws for setting a Gross Receipts Tax (GRT) or property tax increment, perhaps a mirroring of the increment setting and process for approval would be prudent. See Tax Increment for Development Act 5-15 NMSA 1978. The Department of Finance and Administration (DFA) outlined a similar proposal. DFA's Fiscal Impact Report reads, "For reference, the Tax Increment Development Act, 5-15-1 NMSA 1978, provides specific provisions for how the State Board of Finance measures new gross receipts activity. It would be helpful to have the bill reflect the same or similar considerations for the Board of Finance for use in measuring the impact to the state of a redevelopment project.

Testimony in SFC indicated the city of Albuquerque was interested in this device as an aid to repurposing the Southside Walmart that has recently closed.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is possibly <u>not</u> met because TRD is <u>not</u> required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers or local governments taking advantage of the provisions of this act. TRD reports monthly with the publicly available RP500 report on the total state, county, and municipal TIDD diversions and will probably use the same means to report on adoptions of state or locally funded metropolitan redevelopment areas (MRAs). It will be difficult, however, to unravel whether the diversion results in the best interest of the state.

ADMINISTRATIVE IMPLICATIONS

DFA/BOF notes the following:

> Depending on the number of metropolitan redevelopment areas that seek a dedication of the state gross receipts tax increment, the review of such requests could generate significant work for EAU and State Board of Finance Division of DFA. This could lead to staffing increases to support such requests, given the breadth of review required for state increment dedication requests.
>
> Should the bill be enacted, the State Board of Finance will need to develop an administrative rule governing the requirements for seeking state gross receipts tax increment dedication and the requirements for approving requests for dedication.
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> As the bill utilizes similar funding mechanisms as existing tax increment development districts, i.e., gross receipts tax bonds/notes secured by gross receipts tax revenue increment, it could mirror more closely the provisions under the tax increment development act when it comes to administrative requirements, particularly for state increment dedication consideration.

TRD reports that implementation of the provisions would be complex and costly:

> Implementation will have a high impact on TRD's Information Technology Division (ITD) of approximately 6 months of work at a cost of $1,542,389 ($115,523 of staff workload costs and $1,426,866 of contractual resources including gross receipts tax). Implementation will require changes to the GenTax system (TRD's system of record). The system will need reconfiguration to create new account keys, updates to municipal distributions, and updates to the general ledger to create new accounts.
>
> Due to the nature and complexity of the effort required to implement the proposed changes, a contract with the GenTax vendor is required. The estimate for the changes is $1,083,125 including gross receipts (at the current gross receipts tax rate of 8.3125%) and approximately 6 months of work.
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> In addition, a contract project manager and contract business analyst will be required at approximately $214,026 including gross receipts tax. Due to the nature of such an implementation, IV&V services would also be required at a cost of approximately $129,715 including gross receipts tax.
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> Additionally, one state developer and one state business analyst would be needed for the duration of the project at an estimated $115,523 of staff workload costs. After implementation is completed, one application developer, one business analyst and one database/system administrator will be necessary for ongoing operations and support.
>
> This legislation is anticipated to have a high impact on the Administrative Services Division (ASD). The GenTax System's general ledger and reporting will need to be updated for the new distribution. Defining business requirements, and testing changes to GenTax and associated reports will take 240 hours for 1.0 existing FTE and will be split between pay bands 80 and 70. Fiscal year end reporting will also require updating to accommodate the new distribution. [LFC note: the ADDITIONAL OPERATING BUDGET IMPACT table has been adjusted for the change in effective date from July 1, 2023 to July 1, 2024.]
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> The TRD's Office of the Secretary (OOS) will need to hire an additional FTE to support the efforts of the local government liaison and the economists to implement the requirements in Section 4 by determining the base year gross receipts and annually measuring GRT revenue if there is an increase. The new FTE will aid in documenting the data and producing certified reports, coordinating communications between ITD, ASD and OOS for implementing new distributions and support the local government liaison with official communications to local governments. The new FTE is based on an economist-basic.
>
> The proposed changes would be accommodated through twice a year rate changes and per the bills' Section 5 occurring every July 1 and January 1. Due to the effective date of July 1, 2023 for this bill and other proposed bills, any changes to rates, deductions and distributions adds to the complexity and risk TRD faces July 1, 2023 to ensure complete readiness and testing of all processes.
>
> If several bills with similar effective dates become law there will be a greater impact to TRD and additional staff workload costs or contract resources may be needed to

complete the changes specified by the effective date(s) of each bill. In addition, if many municipalities decide to take these actions all at once, it may be difficult for TRD to meet the full implementation requirements and the administrative steps in Section 4 by the deadlines with the current staffing levels.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB303 and its duplicate HB310 propose extensive changes in governance of TIDDs and public improvement districts, although is silent on governance of MRAs.

TECHNICAL ISSUES

TRD advises that due to the complexity of the bill, an effective date of July 1, 2024, is recommended for implementation. This request has been accommodated by STBTC amendment.

Section 4 provides a methodology for determining a property tax increment. However, Section 6 removes the authority of the local government from using those property tax incremental revenues for bonding to support the MRA projects. This may be a method of funding the operation and maintenance expenses of the Metropolitan Redevelopment Authority by using current revenues generated by the property tax increment.

Current legal thinking is that only the governing body composed of persons elected in a general election may impose property taxes and have those property tax revenues used to service a non-taxable MRA bond. Apparently, if gross receipts tax increment financing is provided, it is not necessary to issue tax exempt MRA bonds.

Section 4 also provides a methodology for determining the gross receipts tax increment. However, the requirement at (B)(3) seems somewhat unusual. In the Tax Increment for Development District Act, TRD establishes a location code for the TIDD, determines (once) the base taxable gross receipts, then on a monthly basis notes any increase in aggregate of the gross receipts taxes in excess of the base amount and remits those incremental amounts to the TIDD managers. When the incremental TIDD revenues are dedicated to bond repayment, TRD can remit these amounts directly to the fiscal agent. If this procedure were developed for this MRA tax increment financing, then there would be no necessity for TRD to recalculate percentages every year.

LFC staff understand that excluding construction receipts from the base year calculation and including construction for the calculation year is a device for allowing construction to begin before the MRA diversion is approved but not to have the project funding include prior construction, which would decrease future amounts of diverted revenue.

TRD has several technical points:

On pages 19 and 20, the Taxation and Revenue Department (TRD) is charged with certifying the base year GRT revenue for the newly-defined metropolitan redevelopment area and calculating annual changes. It may be difficult to ascertain the data required to set the base year and a possible annual increase if TRD is required to isolate the revenue attributable to construction activities. Whether or not particular GRT returns are for construction activities will not be known to TRD in its normal processing of tax returns.

The bill has no definition of what is to be considered construction activities. To find all the revenue associated with those activities, TRD would need to manually audit the taxpayers in the district to determine what receipts reported for the district are construction related. This would be incredibly burdensome. It is not clear how TRD would be notified and how payment would occur if a state-assessed property became part of a designated district. If many municipalities decide to take these actions all at once, it may be difficult for TRD to meet the administrative steps in Section 4 by the deadlines with the current staffing levels.

DFA posed a similar parallel concern in their analysis. 'The bill does not address how a redevelopment project would need to evidence gross receipts tax revenues that are new to the state. It is important that this be considered and reflected in the bill in order for the state to provide a dedication. DFA adds further: Given the need to ensure that state increment is provided for projects that general new benefits to the state, the lack of specific methods for measuring impact could leave room for inconsistent consideration by the State Board of Finance, and even for the local entities.'

On page 20, subsection (b), starting on line 21 through page 21, line 9, there appears to be an incomplete calculation. Subsection (b) states that if the TRD finds an increase from the base year, TRD is to calculate a sum. The subsection does not further state what TRD is to do with that sum. In addition, should TRD determine there is an increase, what are the procedures to notify the relevant entities.

TRD notes that, due to changes to sourcing rules under Section 7-1-14 NMSA 1978, the amount of a local government's local option gross receipts tax revenues attributable to the gross receipts of persons engaging in business in the metropolitan redevelopment area will only be a subset of such business's total receipts. Receipts of a business that are sourced to location outside of the local government's taxing jurisdiction, because the tangible personal property or product of the service that is sold is delivered outside of the local government's taxing jurisdiction, will not generate revenue for the local government within which the metropolitan redevelopment area exists, and will not be included in the calculation under Section 4.

In Sections 4, 5 & 10, there do not appear to be procedures to notify the TRD of the decision by a local governments of what proportion of a local government increment to apply to a distribution to metropolitan development fund in Section 10 and therefore when to commence possible distributions. In addition, notification by DFA to TRD of any approved state GRT revenue to distribute. It is also not clear from the bill if a local government can change the proportion dedicated every year, only that it will become effective on January 1 or July 1 of the calendar year.

ALTERNATIVES

DFA/BOF made the following suggestion concerning the original bill. The suggestion was addressed by the SFC amendment.

As the bill utilizes similar funding mechanisms as existing tax increment development districts, i.e., gross receipts tax bonds/notes secured by gross receipts tax revenue increment, it could mirror more closely the provisions under the tax increment development act when it comes to administrative requirements, particularly for state increment dedication consideration.

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