BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

January 31, 2024

Bill: SB-236 **Sponsor:** Senator Carrie Hamblen and Representative Cristina Parajón

Short Title: Metro Development Project GRT Increments

Description: This bill amends the Metropolitan Redevelopment Code to clarify the procedure for determining the gross receipts tax (GRT) increments that are used to fund the metropolitan redevelopment area (MRA) projects. This bill also sets a delay of the effective dates of the bill from the 2023 legislative session currently Laws 2023, Chapter 112, moving the effective date from July 1, 2024 to January 1, 2025.

Effective Date: January 1, 2025

Taxation and Revenue Department Analyst: Pedro Clavijo and Lucinda Sydow

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	**FY2025**	**FY2026**	**FY2027**	**FY2028**		
--	--	--	--	(Unknown)	R	General Fund
--	--	--	--	(Unknown)	R	Sponsoring Local Governments

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The bill's fiscal impact is uncertain and cannot be fully quantified. The lack of information such as (1) the number of MRA projects that would seek dedication of local government and state GRT increment, (2) which projects would seek increments from both local governments (municipal and county) and the state, (3) the increment dedication approved by any local government's governing body or the State's Board of Finance, (4) the size of the project, and (5) whether the project will succeed in generating GRT revenue to distribute after the base year, prevent Tax & Rev from being able to provide an estimation of the revenue loss with precision. Based on the amended timeline on the procedures for GRT increments to fund the MRA projects, the earliest fiscal impact will be in FY2028.

As many of the Metropolitan Redevelopment Code provisions are similar to those of the Tax Increment for Development (TIDD) Act, 5-15-1 NMSA 1978, the scope and potential growth of a fiscal impact may be seen from examining these districts. See the Tax Expenditure Report published by the Taxation and Revenue Department (Tax & Rev) for data and discussion on TIDDs[1].

Policy Issues: This bill adds clarity to executing and implementing the MRA mechanisms and calculations for distributions of GRT revenue introduced and passed into law under SB-251 in the 2023 Legislative Session.

Positive dynamic fiscal effects might be derived from the MRA projects. Tax incentives like those promoted by the Metropolitan Redevelopment Code can influence economic growth, job creation, and new industries' development in local governments if they are strategically targeted to the right sectors. Local governments can use these projects to maximize economic, fiscal, and social benefits. These

[1] See https://www.tax.newmexico.gov/forms-publications/

projects might allow local governments to prioritize areas of high need and advanced industries with high growth and job creation potential. And over time, those local governments will be equipped with a more robust productive apparatus to cope with economic, fiscal, and social transformations.

As this proposal is similar to the Tax Increment Development District (TIDD) laws for setting a Gross Receipts Tax (GRT) or property tax increment, this proposal introduces more complex distributions for Tax & Rev to execute annually that may have otherwise been mirrored using the TIDD process. The diversity of special funds and distributions across the Tax Administration Act is becoming intricate, leading to a more complex tax management process. The proliferation of new funds and distributions fragments the existing boundaries that determine service obligations and the parameters of intergovernmental relationships between the State and local governments.

Calculation of "baselines" of GRT revenue, required both by the TIDD laws and the MRA statutes, have been complicated by the move from "origin-based" sourcing of gross receipts, which looked to the physical location of the business to determine sourcing, to "destination" sourcing, which looks to where the property or product of a service is delivered to determine sourcing. This bill attempts to deal with the complications, but has the noted effect of pushing the calculation of the impact of designation of a MRA (or a TIDD) out by one year.

Technical Issues: None.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev will update forms, instructions, and publications and make information system changes. Tax & Rev's Administrative Services Division (ASD) anticipates this bill will take approximately 540 hours and two existing full-time employees to implement. Tax & Rev's Information Technology Division (ITD) estimates that implementing the bill will require approximately six months and $1,423,081 between staff workload costs and contractual costs. After implementation is complete, one application developer, one business analyst and one database/system administrator FTE will be needed for ongoing operations and support. The Local Government Liaison in the Office of the Secretary (OOS) will dedicate approximately 30 hours for every submission of a new MRA. This will be a recurring cost each time a MRA is established, involving documenting the data, producing certified reports, coordinating communications between ITD, ASD and OOS for implementing new distributions and official communications to local governments.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2024	**FY2025**	**FY2026**	**3 Year Total Cost**		
--	$58.0	--	$58.0	NR	Tax & Rev – ASD – staff workload
--	$1,308	--	$1,308	NR	Tax & Rev – ITD – contractual costs
--	$115	--	$115	NR	Tax & Rev – ITD – staff workload
--	--	$231.0	$231.0	R	Tax & Rev – ITD - FTE
--	$1.7	$3.3	$5.0	R	Tax & Rev – OOS – staff workload

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).