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

		LAST UPDATED	
SPONSOR	McCutcheon	**ORIGINAL DATE**	1/30/24
SHORT TITLE	GRT Distribution to Hobbs	**BILL NUMBER**	Senate Bill 100
		ANALYST	Torres, Ismael

APPROPRIATION*
(dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
$25,000.0		Nonrecurring	General Fund

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

Sources of Information

LFC Files

Agency Analysis Received From
New Mexico Attorney General (NMAG)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Senate Bill 100

Senate Bill 100 (SB100) appropriates $25 million from the general fund to the Department of Finance and Administration for distribution to the city of Hobbs in fiscal year 2024. This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted.

FISCAL IMPLICATIONS

The appropriation of $25 million contained in this bill is a nonrecurring expense to the general fund. Although SB100 does not specify future appropriations, establishing a new precedent of direct local government appropriations could create an expectation for direct appropriations in the future, presenting a future liability to the general fund.

SIGNIFICANT ISSUES

The appropriation contained in SB100 likely implicates Article IV, Section 24, of the New Mexico Constitution, which prohibits passing "local or special laws." Specifically, the New Mexico Constitution states, "the Legislature shall not pass local or special laws… refunding money paid into the state treasury, or … where a general law can be made applicable, no special law shall be enacted."

In duplicate legislation from the 2023 regular session, the Taxation and Revenue Department (TRD) noted:

> The new appropriation proposed by this bill aims 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.
>
> 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.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

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

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