NEW MEXICO ASSOCIATION OF COUNTIES
Local Option Gross Receipts Taxes

NMAC Tax Policy Statements

- NMAC supports tax reform efforts that improve economic efficiency, economic development, ease of administration, and overall fairness of the state and local tax system.
- NMAC should fully participate in legislative and executive efforts to restructure and reform the state and local tax system.
- NMAC opposes legislation that has a significant negative impact on county revenue.

Background and Current Situation

- County revenues have been flat or diminishing over the last several years, while expenditures (especially for detention centers) have been increasing.
- Property tax revenue has been relatively flat for many years, and GRT has become increasingly important for counties over the last decade.
- Many counties are having an exceedingly hard time balancing their budgets while still providing essential services, and have seen a significant revenue shortfall, e.g., Eddy County is receiving over $1 million less a month on oil and gas from previous years; in San Juan County gross receipts taxes are down approximately 23% since 2009 (notwithstanding the county's enactment of additional GRT increments) and, as a result of the substantial downturn in revenue, the county has seen a reduction of 60 employees and an annual budget reduction of approximately $53 million; and in Lea County gross receipts tax revenues from 2015 to 2016 plummeted from $41.2 million to $27.8 million, a reduction of over 32%.
- According to data compiled by the National Association of Counties, not one New Mexico county has seen its economy fully recover to pre-recession levels (only 7% have recovered nationwide).
- Counties continue to have to pay for a large number of long-term unfunded state mandates, e.g., state district courts, district attorneys, state public health offices, and more recent mandates such as the 1/16 GRT revenue for the state Medicaid program, 1/12 GRT revenue for the state Safety Net Care Pool for hospitals, approximately $10 million to the Tax & Revenue Department for "administration" of GRT payments, among others.
- Detention centers cost counties on average approximately 1/3 of all general fund revenues (over $275 million annually just for operations alone). Pursuant to a court decision ten years ago, the State is responsible for paying for parole violators housed in county jails. After the court decision the Legislature passed the County Detention Facility Reimbursement Act, and provided $5 million to help pay for state offenders in county jails. The fund has been reduced to approximately $2.5 million over the past ten years, which doesn't come close to reimbursing counties for the category of offenders set forth in the statute.

- Most county local option GRT increments are unused or unusable (see the GRT chart). The most recent legislative effort at county local option GRT reform was in 2004, when a new general purpose was added and several earmarked increments were made more usable.
- In 2013, HB 641 phased out hold harmless payments to local governments over a certain population to compensate for revenue lost by taking GRT off food and prescription drugs in 2004, and gave both cities and counties up to 3/8 of 1% additional taxing authority without referendum. Counties and cities did not participate in the last minute legislative decision to authorize the new taxing authority.
- Only one county authorized the new tax increments in the first year.
- To date 19 counties have imposed at least one hold harmless GRT increment, and 12 have pledged at least a portion of the tax revenue for revenue bonds.
- Over the past year no counties have imposed new GRT increments.
- The hold harmless GRT revenues are non-earmarked increments that are being used by counties for essential services such as jails (capital and operations), roads and infrastructure, healthcare and behavioral health, and other unfunded mandates.

Where Do We Go From Here?

- The NMAC Board of Directors supports comprehensive tax reform to fix a state and local tax system that is badly broken. We support GRT reform that would reduce tax rates and increase the base by eliminating some of the over 370 exemptions, deductions, and credits currently in place. New Mexico's GRT structure is bad for business, bad for our citizens, discourages economic development, and is an uncompetitive regressive tax.
- NMAC supports simplifying the GRT code, eliminating unused or unusable increments, removing earmarks, and making most local option increments general purpose.
- In moving forward, counties and cities need to be partners at the table with the legislative and executive branches in formulating tax reform options and policies.