



New Mexico Municipal League 2023 Legislative Priorities

Revenue Stabilization & Tax Policy
Committee

December 20, 2022

New Mexico Municipal League Legislative Priorities

Overview

Looking Back

- 1) Increases to Law Enforcement Protection Fund distributions
- 2) Increases to Fire Protection Fund distributions
- 3) Sourcing rule changes – Internet and destination-based sourcing
- 4) De-earmarking of local option GRT

Looking Ahead

- 1) Municipal tax revenue stability
- 2) TRD admin fee cost allocation
- 3) Road infrastructure investment through motor vehicle excise tax distributions
- 4) Airport infrastructure funding
- 5) Public safety modernization

Looking Back: Increased Funding for Public Safety

1

Increases to Law Enforcement Protection Fund distributions and death benefits

- HB 68 (2022) and HB184 (2020) increased distributions from \$600 to \$1,500 per officer and from up to \$45,000 to \$95,000 per department
- LEPF provides monies that can be spent on critical training and equipment needs as well as on retention payments for agencies struggling with high vacancy rates
- HB68 also increased death benefit to \$1 million – the highest in the country



2

Increases to fire department distributions & grants

- SB 256 (2021) directed balances in the Fire Protection Fund (FPF) to the Fire Protection Grant Fund (FPGF) and also made the FPGF non-reverting
- Statutory changes directed an additional ~\$20 million annually in distributions and grant funding for fire departments to spend on fire engines, rescue equipment, personal protective equipment, training, and other critical needs



Thank you for your support on these critical public safety initiatives!

Looking Back: Changes to Sourcing Rules

Changes to sourcing rules had mixed, unintended consequences on municipal revenues

- HB6 (2019) implemented local taxation of Internet sales, as well as destination-based sourcing rules
- Destination-based sourcing rules had significant, unintended negative impact on some municipalities (e.g. those reliant on extractive industries)
 - In addition to GRT revenue losses, cities also lost local share of state GRT (1.225% distribution) on some transactions
 - LFC analysis projected losses of up to \$50 million in 1.225% distribution for FY23
- Internet sales revenue is positive for cities...
- ...However, a lack of reporting detail makes it virtually impossible to determine impact
- Unintended consequences of sourcing rule changes highlight need for detailed analysis of impact of potential tax changes, as well as support for adversely affected local governments

3

Loss of up to \$50 million in municipal revenues was not clearly identified in analysis of destination sourcing

Destination Sourcing “Clean-Up” Bill (HB 326-2020) FIR:

“...in general, the change from origin (business location) sourcing to destination sourcing for ‘in-person’ services will reduce municipal revenues and increase state revenues because the municipalities would lose the 1.225 percent state share.”



SB 137 (2022) FIR:

Proposed bill would have restored lost 1.225% distribution to cities. FIR analysis indicates restoration could total over \$50 million, indicating this amount was lost in original destination sourcing changes.

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24	FY25	FY26		
	\$26,000-\$52,000	\$27,000-\$53,900	\$27,700-\$55,400	\$28,700-\$57,400	Recurring	Municipalities*
	(\$26,000-\$52,000)	(\$27,000-\$53,900)	(\$27,700-\$55,400)	(\$28,700-\$57,400)	Recurring	General Fund*

Parenthesis () indicate revenue decreases

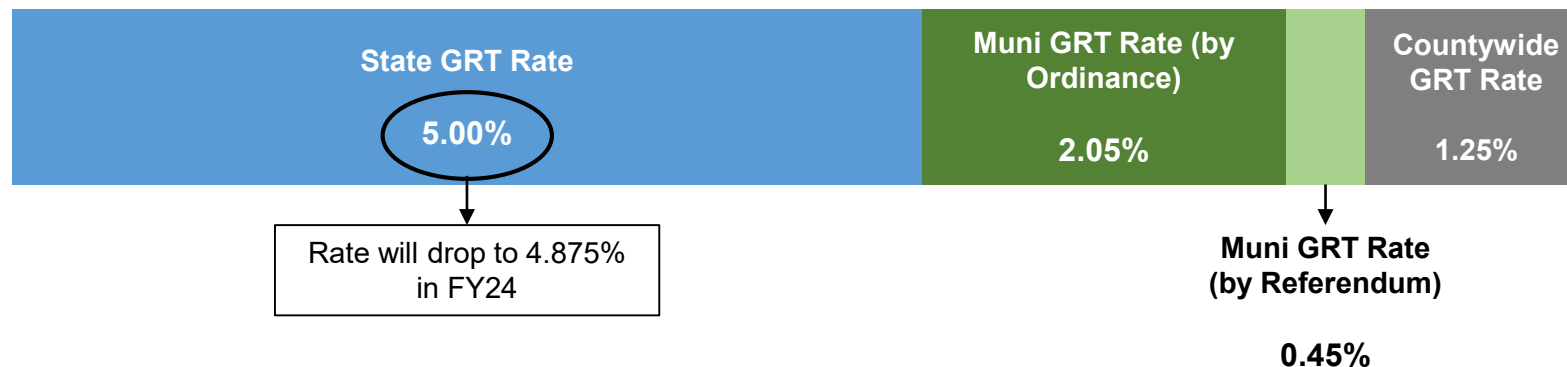
Looking Back: De-Earmarking of Local Option GRT

4

De-earmarking provided cities with more flexibility and local autonomy

- HB479 (2019) removed restricted uses of several municipal and county local option GRT increments
- Counties and municipalities gained more flexibility in budgeting tax revenue, as well as the ability to respond more easily to changing budgetary needs
- Municipalities can now enact 2.05% GRT by ordinance and 0.45% by voter referendum

Maximum Municipal Increments (Effective July 1)



Looking Ahead: Municipal Revenue Stability (1/5)

1

NMML Legislative Priority: Support stability of municipal tax revenue sources

- **NMML supports tax reform efforts to modernize and simplify the tax code**, while ensuring stability of existing municipal revenue sources
- **Tax reform proposals should be carefully analyzed for effects on local government revenues**
 - Analysis should look at effects on individual cities or counties, not just the “average” impact, which can disguise significant differences in local government tax bases (for example – destination-based sourcing)
 - Municipal revenue sources vary greatly across the state (*see chart on page 10*)
- **Cuts to local revenues can have serious impacts on cities’ ability to pay for essential services**, such as public safety
- **Proposals with adverse effects on local government revenues should ensure offsetting mechanisms** to backfill revenue or raise revenue through other sources (for example, increasing the state share distribution)

Looking Ahead: Municipal Revenue Stability (2/5)

1

NMML Legislative Priority: Support stability of municipal tax revenue sources

- Any moratorium on local GRT rate enactments is very concerning to NMML and its members
- A moratorium **bypasses the authority of elected officials, as well as citizens** who vote on referendum tax authority, often for specific local needs (examples – voters approving increases for emergency services in Taos County; legal settlement payment in Silver City)
- A moratorium would:
 - **Cap cities' primary revenue source** (GRT revenues make up two-thirds of municipal general fund revenues on average)
 - **Make it difficult for local governments to plan for the future**, introducing uncertainty into local budgeting and other processes
- The state's recurring general fund budget increased by 37 percent between FY18 and FY23 – local governments also need autonomy to respond to changing needs and circumstances

Tax reform should not come at the expense of local governments and residents

Limiting local governments' ability to raise revenue would negatively impact areas including:

- Employee pay raises for recruitment and retention
- Public safety needs, including police and firefighter pay
- Economic development efforts
- Leveraging federal funds for infrastructure projects
- Service provision (recreation, senior services, libraries, etc.)

Taos County voters pass gross receipts tax to support emergency services

Final vote: 74 percent yes, 26 percent no

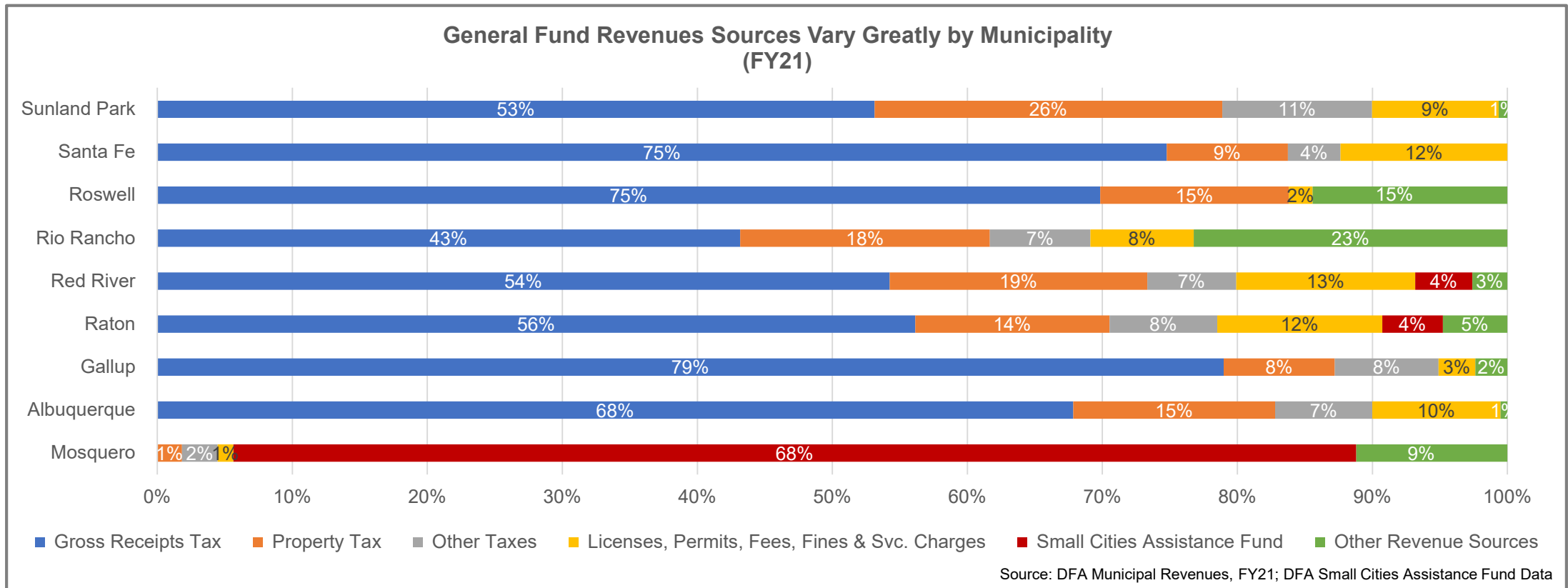
Staff report Nov 9, 2022 Updated Nov 9, 2022 0



Looking Ahead: Municipal Revenue Stability (3/5)

1

NMML Legislative Priority: Support stability of municipal tax revenue sources



Looking Ahead: Municipal Revenue Stability (4/5)

1

NMML Legislative Priority: Support stability of municipal tax revenue sources

- **44 municipalities** have GRT revenues of less than \$1 million annually
- **85 municipalities** have GRT revenues of less than \$10 million annually
- **86 municipalities** received Small Cities Assistance Fund monies in FY22 (between \$90 thousand and \$386 thousand)

GRT > \$10 million		
Municipality	FY22 Total (\$ Thousands)	
Albuquerque	\$	580,095
Santa Fe	\$	143,787
Las Cruces	\$	119,720
Los Alamos	\$	73,752
Farmington	\$	70,175
Rio Rancho	\$	64,085
Carlsbad	\$	59,007
Hobbs	\$	54,760
Roswell	\$	41,043
Los Lunas	\$	38,971
Gallup	\$	31,137
Alamogordo	\$	30,590
Clovis	\$	30,072
Artesia	\$	26,208
Jal	\$	22,050
Ruidoso	\$	16,935
Taos	\$	14,252
Deming	\$	13,306
Silver City	\$	12,303
Las Vegas	\$	10,950
Espanola	\$	10,354

GRT \$1 million - \$10 million			
Municipality	FY22 Total (\$ Thousands)	Municipality	FY22 Total (\$ Thousands)
Belen	\$ 9,851	Moriarty	\$ 3,016
Grants	\$ 9,180	Red River	\$ 2,659
Bernalillo	\$ 8,585	Clayton	\$ 2,622
Lovington	\$ 8,100	Bosque Farms	\$ 2,578
Portales	\$ 8,008	Anthony	\$ 2,514
Sunland Park	\$ 6,896	Lordsburg	\$ 2,444
		Taos Ski	
Edgewood	\$ 6,805	Valley	\$ 1,997
Loving	\$ 6,511	Cuba	\$ 1,822
Aztec	\$ 6,391	Mesilla	\$ 1,795
Bloomfield	\$ 6,354	Estancia	\$ 1,477
Socorro	\$ 6,294	Bayard	\$ 1,468
Angel Fire	\$ 5,723	Tijeras	\$ 1,419
Raton	\$ 5,483	Cloudcroft	\$ 1,410
Eunice	\$ 5,390	Kirtland	\$ 1,348
Corrales	\$ 5,115	Tularosa	\$ 1,345
T or C	\$ 4,908	Questa	\$ 1,307
Ruidoso Downs	\$ 4,728	Hatch	\$ 1,240
Tucumcari	\$ 4,550	Peralta	\$ 1,232
Los Ranchos	\$ 4,369	Chama	\$ 1,167
Santa Rosa	\$ 3,158	Rio Comm.	\$ 1,077
Milan	\$ 3,097		

GRT < \$1 million			
Municipality	FY22 Total (\$ Thousands)	Municipality	FY22 Total (\$ Thousands)
Capitan	\$ 994	Vaughn	\$ 385
Elephant Butte	\$ 968	Reserve	\$ 355
Pecos	\$ 951	San Jon	\$ 340
Tatum	\$ 892	San Ysidro	\$ 331
Carrizozo	\$ 818	Williamsburg	\$ 313
Springer	\$ 806	Lake Arthur	\$ 306
Columbus	\$ 791	Des Moines	\$ 188
Logan	\$ 769	Elida	\$ 180
Ft Sumner	\$ 769	Wagon Mound	\$ 175
Santa Clara	\$ 767	Hope	\$ 165
Texico	\$ 740	Maxwell	\$ 155
Mountainair	\$ 740	Roy	\$ 153
Dexter	\$ 731	Grady	\$ 142
Encino	\$ 642	Mosquero	\$ 139
Hagerman	\$ 624	Willard	\$ 137
Hurley	\$ 607	House	\$ 133
Magdalena	\$ 578	Floyd	\$ 130
Cimarron	\$ 576	Dora	\$ 126
Eagle Nest	\$ 560	Folsom	\$ 123
Jemez Springs	\$ 537	Causey	\$ 111
Melrose	\$ 481	Grenville	\$ 107
Corona	\$ 387	Virden	\$ 101



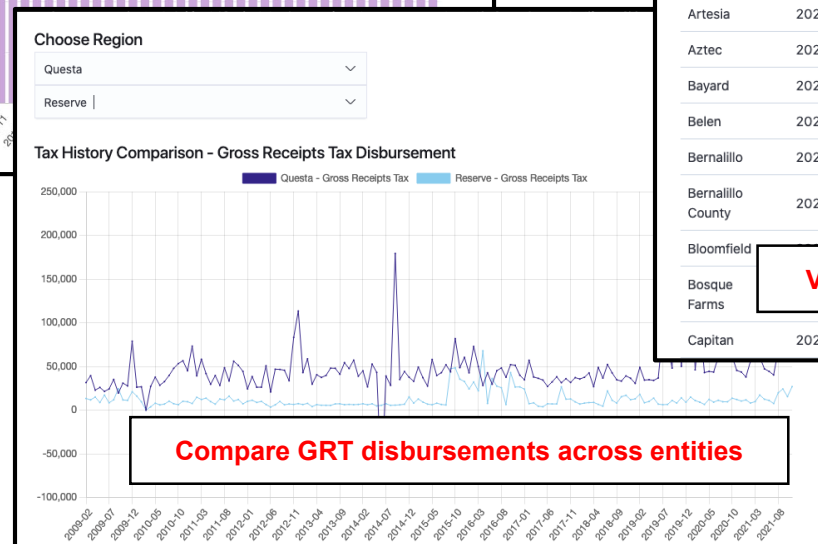
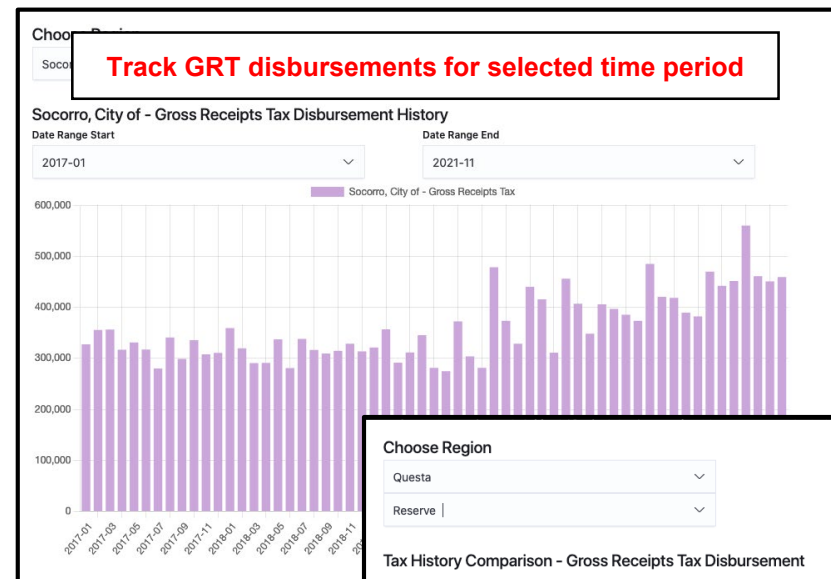
Indicates municipality received Small Cities Assistance Fund distribution in FY22

Looking Ahead: Municipal Revenue Stability (5/5)

1

NMML Legislative Priority: Support stability of municipal tax revenue sources

- **Next steps:** The Municipal League is working with an **advanced analytics group to develop a tax data portal** to help with historical & future tax data analysis, using publicly available TRD data
- For example, the portal will be able to:
 - Track GRT disbursements by location, for selected time periods
 - Track GRT by industry, with ability to separately model volatile, seasonal, and cyclical industries
 - Track components such as administrative fees, food and medical distributions, and adjustments from RP-500s



Entity Summary								
Entity	Current Date	Current Dist...	Last Year's ...	Last Year's ...	Year over Ye...	Last Month'...	Last Month'...	Month over ...
Acoma Pueblo	2021-11	\$ 55 k	2020-11	\$ -26 k	-307.74 %	2021-10	\$ 44 k	26.01%
AIS Property/Nineteen Pueblo	2021-07	\$ 219 k	2020-07	\$ 86 k	154.72%	2021-06	\$ 196 k	11.33%
Alamogordo	2021-11	\$ 2,349 k	2020-11	\$ 2,210 k	6.30%	2021-10	\$ 2,402 k	-2.20%
Albuquerque, City of	2021-11	\$ 46,182 k	2020-11	\$ 39,793 k	16.05%	2021-10	\$ 45,633 k	1.20%
Angel Fire	2021-11	\$ 546 k	2020-11	\$ 298 k	83.17%	2021-10	\$ 374 k	45.86%
Anthony, City of	2021-11	\$ 164 k	2020-11	\$ 164 k	0.03%	2021-10	\$ 153 k	7.54%
Artesia	2021-11	\$ 2,065 k	2020-11	\$ 1,518 k	36.02%	2021-10	\$ 2,252 k	-8.30%
Aztec	2021-11	\$ 530 k	2020-11	\$ 348 k	52.43%	2021-10	\$ 490 k	8.04%
Bayard	2021-11	\$ 81 k	2020-11	\$ 43 k	85.92%	2021-10	\$ 88 k	-8.74%
Belen	2021-11	\$ 809 k	2020-11	\$ 636 k	27.21%	2021-10	\$ 842 k	-3.90%
Bernallillo	2021-11	\$ 666 k	2020-11	\$ 620 k	7.41%	2021-10	\$ 664 k	0.28%
Bernallillo County	2021-11	\$ 21,466 k	2020-11	\$ 19,594 k	9.55%	2021-10	\$ 21,638 k	-0.80%
Bloomfield								
Bosque Farms								
Capitan	2021-11	\$ 59 k	2020-11	\$ 47 k	24.67%	2021-10	\$ 69 k	-14.99%

View monthly distributions side-by-side for all entities

Compare GRT disbursements across entities

Looking Ahead: TRD Admin Fee Cost Allocation

2

NMML Legislative Priority: Ensure that tax administration costs to local governments are fairly and reasonably allocated

- Current statute allows TRD to apply an “administrative fee” of 3 percent on local option GRT and compensation tax revenues distributed to cities and counties (Section 7-1-6.41 NMSA)
- Revenue from the admin fees goes to the General Fund
- **However, regulatory fees should be structured to cover only “reasonably necessary” costs of providing services¹**
- **Fees collected by TRD may be significantly higher than costs attributable to administration of local government GRT and compensating taxes**
- In FY22, fees represented ~79% of TRD’s General Fund budget – it’s unlikely that administration of local govt. GRT and comp tax accounts for 79% of agency’s GF budget
- NMML wants to ensure transparency in fee administration, as well as a fair fee allocation structure

\$51.5 million

Annual admin fees
(FY22)²

TRD General Fund Budget (FY22)	Annual Local Govt. Admin Fees (FY22)	Admin Fees as % of GF Budget
\$65.3 mil	\$51.5 mil	79%

An estimated **\$51.5 million** in fee revenue represents 79% of TRD’s General Fund budget – however, it’s unlikely that administration of local govt. GRT and comp taxes accounts for 79% of budget

¹ A regulatory fee “must not exceed the amount reasonably necessary to cover the costs of performing or regulating the matter in question...” *New Mexico Mining Ass’n v. New Mexico Mining Comm’n*, 1996-NMCA-098, ¶ 23, 122 N.M. 332, 338, 924 P.2d 741, 747.

² Source: TRD

Looking Ahead: Road Infrastructure Investment (1/2)

3

NMML Legislative Priority: Using Motor Vehicle Excise Tax Revenues to invest in statewide road infrastructure

- **NMML supports directing all MVEX revenues to road funds**, with 60% going to the State Road Fund and 40% to the Transportation Project Fund
- Currently, ~60% of MVEX revenues go to the General Fund, ~22% to State Road Fund, and ~18% to the Transportation Project Fund
- **Directing 100% of MVEX revenues to road funds would:**
 - **Generate an additional ~\$140 million**, using a growing revenue source
 - **Allow the state to invest ambitiously in critical transportation infrastructure**, improving road safety and conditions, and lowering driving costs for New Mexicans
 - **Address the \$5 billion+ in needed but unfunded transportation projects across the state (see examples in table)¹**
 - **Address the 56 percent of major roads and highways in poor or mediocre condition in New Mexico¹**

Examples of Unfunded Road Projects

Route	Project Needs	Estimated Cost
US 380/NM 157-242, Roswell to Tatum to State Line	Capacity improvements including alternating passing lanes throughout corridor	\$190 million
I-25 at Nogal Canyon	Bridge replacement	\$30 million
I-25 Montgomery and Comanche Interchanges	Reconstruction	\$175 million
US 64/87, MP 349.4 to MP 404	Rehabilitation from Raton to Clayton	\$150 million
US 60, MP 328 to 378 Clovis to Ft. Sumner Corridor	Roadway reconstruction, rehabilitation, additions of passing lanes and drainage improvements	\$150 million
US 550 Aztec to Colorado State Line	Full depth reclamation	\$28 million
Cerrillos Road in Santa Fe/St. Michael's to St. Francis	Roadway Reconstruction	\$25 million

Source: TRIP Report, 2022

¹ Source: TRIP Report, 2022

Looking Ahead: Road Infrastructure Investment (2/2)

3

NMML Legislative Priority: Using Motor Vehicle Excise Tax Revenues to invest in statewide road infrastructure

Inadequate road funding has a direct impact on New Mexicans' finances

- New Mexico's poor road quality costs drivers over \$2,000 annually, over 4 percent of median household income
- Poor roads have a disproportionate cost to lower-income New Mexicans, with costs to low-income households representing nearly 9 percent of annual income

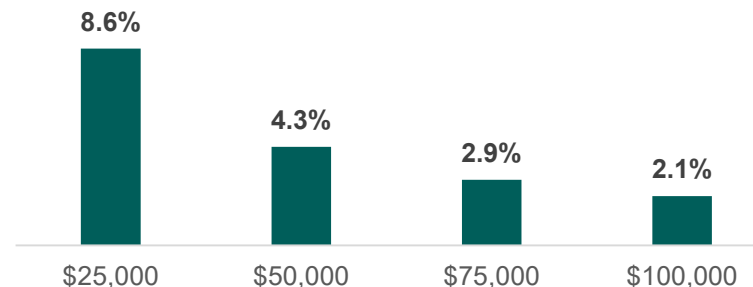


From the Legislative Finance Committee *Policy and Performance Analysis* (FY23)

"Growth in the state road fund has been slow and the revenue generated is insufficient to meet construction and maintenance demands. The Legislature found persistent underfunding of infrastructure projects led to the need for both recurring and nonrecurring appropriations to pay for maintenance and construction statewide."

	Average Annual Cost per Driver
Vehicle Operating Costs	\$929
Safety Costs	\$605
Congestion Costs	\$604
TOTAL	\$2,138

Share of Household Income Spent on Road-Related Costs per Driver



Source: TRIP Report, 2022; based on number of licensed drivers

Looking Ahead: Airport Infrastructure Funding

4

NMML Legislative Priority: Invest strategically in state's airport infrastructure

- NMML supports **ambitious and strategic investment in the state's airports**
- Federal Aviation Administration funding provides significant support for some aviation projects in the state...
- **But major key projects**, including hangars, terminals, and ramps **are typically not eligible for FAA funding**
- An appropriation to NMDOT Aviation Division to fund projects on the Airport Capital Improvement Plan would **address project backlogs at 45+ airports across the state**
- Airport infrastructure development supports **community economic development, job creation, and health and safety priorities**

Project Example

Project: Crack/Surface Seal, Markings

Location: Las Vegas

Benefits: Rehabilitate pavement to avoid foreign object debris (FOD) breakup and add new sealing and markings

Project Example

Project: Improve Airport Drainage Northwest

Location: Gallup

Benefits: Provide better drainage outlets, so water does not pool on the pavement and flood buildings

Project Example

Project: Taxiway Extension Construction

Location: Hobbs

Benefits: Provide a more safe and efficient use of the airfield that better meets FAA standards for taxiway development

Community Benefits of Airport Improvements:

- Medevac services
- Firefighting support
- Law enforcement support
- Business travel
- Tourism
- Air cargo services

Looking Ahead: Public Safety Modernization

5 NMML Legislative Priority: Invest in strengthening and modernizing community public safety

Increase funding for statewide EMS services

- Direct more funding to EMS services through DOH appropriation; adjust formula to direct more funding to local EMS programs and EMS system improvements
- EMS services, especially in rural areas, face significant staffing and financial challenges, and capital costs are high



Increase firefighter survivors' benefit to \$1 million

- Firefighter survivors' benefit should align with peace officer survivors' benefit (increased to \$1 million beginning in FY24)
- Increased benefits would come from Fire Protection Fund (FPF receives distributions from insurance premium taxes; increased benefits would not affect insurance costs)



Support public safety agencies' implementation of state's Public Safety Radio Communications network

- Cover communications fees for public safety agencies via appropriation to DoIT, ensuring widespread usage of interoperable network statewide



Develop law enforcement database to aid in hiring

- Create a transparent, searchable law enforcement database to track incidences of excessive use-of-force and other serious violations by law enforcement officers





Thank you!

Questions?

AJ Forte

Executive Director

ajforte@nmml.org

505-699-6944

Alison Nichols

Director of Policy

anichols@nmml.org

505-470-3931