

Gallup Hold-Harmless – Key Points

Gallup and McKinley County (which is Gallup's trade area) are unique because of their extreme poverty and lack of a growing tax base, which makes them very different from the other large cities and counties that are losing their "hold-harmless" distribution. Most cities (about 80%) and most counties (about 60%) are keeping their "hold-harmless" distributions because of their small populations. We would like Gallup and McKinley to retain their "hold-harmless" distributions like the small cities and counties.

1. By substantial amounts, McKinley County has the highest poverty rate in the state (about 38%) and the lowest per capita income in the state.
2. Gallup cannot reduce services. It has the highest crime rate in the state in most categories and serves a huge area (including Interstate 40) with emergency rescue and other emergency services. Police officers in Gallup answer almost twice as many calls per officer as police officers in Albuquerque.
3. Gallup's gross receipts tax revenues are almost flat. Natural growth will not make up for the loss of "hold-harmless".
4. Raising taxes is not a viable option for Gallup. Gallup already has nearly the highest gross receipts tax rate in the state at 8.3125%. Those towns that are higher are primarily resort communities which are retaining their "hold-harmless". Raising taxes would damage what business remains in Gallup and impede business recruitment. Further, it would impose additional taxes on the poorest people in the state.
5. Even if Gallup were to impose the entire new 3/8 cent gross receipts tax authority (which would give it the highest tax rate in the state), it will not replace the loss of "hold-harmless". The 3/8 cent authority will produce only about \$2.3 million annually. Gallup's loss of the "hold-harmless" distribution will cost about \$3.2 million annually, approximately 11% of its general fund revenues.
6. Permitting Gallup and McKinley County to retain their "hold-harmless" based on their poverty need not "open the door" to other claims on the same basis. The counties closest to McKinley in terms of poverty rates and per capita income (and none are very close) are small. They, and the cities in them, already retain their "hold-harmless" based on population.

The current law determines which cities and counties retain their "hold-harmless" distributions based on population count alone, apparently on the assumption that larger cities and counties are better able to adjust to the loss of "hold-harmless" than smaller cities and counties. This approach does not actually consider which local governments could most easily reduce their spending or raise taxes, nor which have growing tax revenues or have businesses and citizens who could afford to pay increased taxes. Gallup and McKinley, with large but poor populations to serve, are less able, rather than more able, than smaller cities and counties to absorb the loss of the "hold-harmless" distribution. Further, their gross receipts tax bases are static or shrinking.

Sources for Key Points

1. The Small Area Income and Poverty Estimates for 2012, U.S. Census Bureau, shows:

Poverty Rates, all ages	
McKinley County	37.7%
Torrance County	29.1%
Cibola County	28.8%
New Mexico Average	20.6%

Bureau of Business and Economic Research, UNM. For 2011 it shows per capita income:

McKinley County	\$24,079
Cibola County	\$25,965
Union County	\$25,986
Guadalupe County	\$26,426
New Mexico Average	\$34,133

2. FBI Uniform Crime Reports for 2012 show the following highest rates in New Mexico:

Per Capita Property Crime	Police Officer Call Statistics:
Gallup 0.174	The relevant call statistics are approximately 1000 per year versus approximately 550 per year per officer. APD Strategic Plan FY 2011 through FY 2015 p. 6; City of Albuquerque, Office of Internal Audit – Officer Retention Plan p. 8. Gallup Police Department Annual Report 2012, p. 11.
Espanola 0.168	
Silver City 0.130	
Per Capita Murder Rate	
Gallup .00036	
Espanola .00026	
Silver City .00016	
Per Capita Burglary and Larceny	
Gallup .0825	
Espanola .0811	
Silver City .0619	
Per Capita Violent Crime	
Espanola .0523	
Gallup .0373	
Artesia .0212	

3. City of Gallup records show GRT tax base FY 2011 through 2014 respectively \$615.5, million, \$612.2 million, \$640.5 million, \$633.1 million, an average increase of less than 1% annually. For the first three months of FY 2015 GRT revenue growth is negative. This may mean that Gallup has a shrinking tax base.
4. New Mexico Taxation and Revenue Department figures show Gallup 8.3125%, exceeded by Taos Ski Valley 8.6875%, Ruidoso 8.6250%, Red River 8.4375%. Also, Espanola (Santa Fe) is 8.8125% and Espanola (Rio Arriba) is 8.5625%. Other representative cities are: Albuquerque 7.000%, Las Cruces 7.9375%, Rio Rancho 7.4375%, Santa Fe 8.1875%, Farmington 7.8125%, Grants 7.8750%
5. City of Gallup records show these numbers with an annual general fund budget of approximately \$30.0 million.
6. As shown above in (1), the counties closest to McKinley in poverty rates and per capita income are Torrance, Cibola Union and Guadalupe. All these counties and their municipalities retain their “hold-harmless” based on population.

HOLD-HARMLESS PROPOSAL

Current law imposes on many local governments annual reductions in the “hold-harmless” distribution over a 15-year period – 6% per year for 5 years, and then 7% per year for 10 years, reducing it to zero after 15 years. For Gallup, and probably for several other cities, the “hold-harmless” distribution represents about 15% of the total GRT revenue.¹ Therefore, the phasing-out of the “hold-harmless” distribution over 15 years results in approximately a 1% reduction in GRT revenues every year.

When HB 641 of 2013 reduced corporate taxes and created the phase-out, the expressed hope was that economic growth over the next 15 years would result in additional local tax revenues which would offset the reductions in the “hold-harmless” distributions. That economic growth may well occur, but it is unlikely that it will occur evenly across the state.

Proposed Solution

It may be reasonable for local governments with significant GRT revenue growth to contribute to the state general fund by reductions in their “hold-harmless” distributions. But local governments not experiencing significant GRT revenue growth ought not be required to contribute; this seems particularly true for those localities which are among the poorest in the state. New Mexico certainly should avoid the appearance of the poor subsidizing the rich.

There are many ways to measure revenue growth. We will suggest one which seems reasonable.

1. Define a base period and compute the local government’s average gross receipts tax base for that period. We suggest a four-year period: FYs 2011, 2012, 2013 and 2014.

2. Local governments should suffer a reduction in their “hold-harmless” only if their GRT base grows by some amount after the base period. We suggest that a 2 ½ % average annual growth in the tax base after the base period should be the point at which “hold-harmless” reductions begin. (As discussed below, New Mexico predicts about a 5% annual gross receipts tax growth for the next five fiscal years. The 2 ½% figure means communities with revenues growing at less than ½ the state average will be protected).

3. The annual 6% (or 7%) reductions in the “hold-harmless” distributions should occur only if and when a local government has experienced an average annual tax base growth since the base period exceeding 2 ½ %. This would mean that some local governments might lose the “hold-harmless” distribution only over 25 or 30 years. Others might retain the “hold-harmless” distribution indefinitely like the small cities and counties. However, most on the 15-year schedule will remain there.

4. In the legislature’s discretion, the above “deferred phase-out” formula could be applied to all local governments experiencing slow gross receipts tax revenue growth, or limited to those local governments with slow growth and whose constituents have low per capita incomes or high poverty rates.

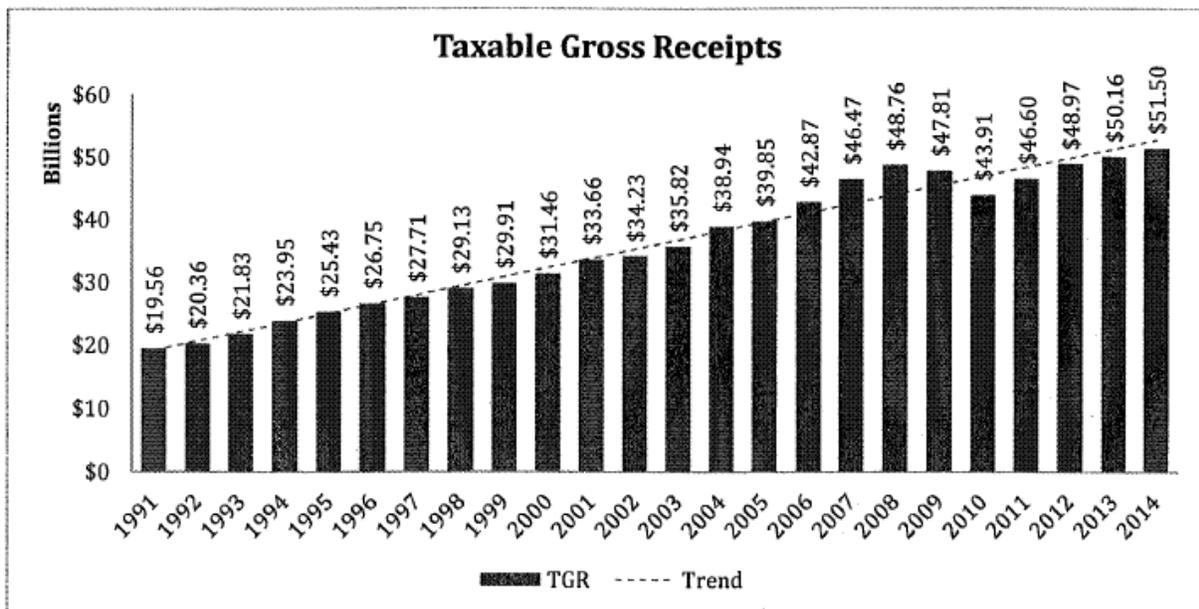
¹ The New Mexico Municipal League calculates that for FY 11 the “hold-harmless” distribution represented between 10% and 16% of the general fund expenditures for 10 of the cities scheduled to lose the hold-harmless distribution. For two cities it represented 20% or more and for 10 cities less than 10%. The percentage of GRT revenues would be higher.

5. The most useful data for considering this issue is contained in the TRD August 25, 2014 presentation to the LFC. Reproduced below, it shows, on a statewide basis, New Mexico’s projected GRT revenues growing from \$1.976 billion in FY 14 to \$2.510 billion in FY 19, an increase of approximately 25% over five years. Also it contains historic figures on the growth of the GRT base from \$43.91 billion in FY 2010 to \$51.51 billion in 2014, an increase of more than 17% over four years.

August 2014 Consensus General Fund Recurring Revenue Outlook

(Millions of Dollars)

	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
Gross receipts tax	\$1,976	\$2,061	\$2,160	\$2,298	\$2,393	\$2,510
Selective sales taxes	\$448	\$493	\$508	\$533	\$574	\$586
Personal income tax	\$1,250	\$1,305	\$1,345	\$1,405	\$1,465	\$1,530
Corporate income tax	\$205	\$215	\$210	\$200	\$160	\$150
Energy-related revenues	\$1,152	\$1,170	\$1,162	\$1,157	\$1,149	\$1,142
Investment earnings	\$654	\$704	\$784	\$819	\$897	\$965
Other revenues	\$323	\$291	\$267	\$277	\$282	\$287
Total Recurring Revenue	\$6,008	\$6,240	\$6,436	\$6,689	\$6,919	\$7,171
Percent Change	5.2%	3.9%	3.1%	3.9%	3.4%	3.6%



6. We hope the legislature will either exempt Gallup and McKinley County from the “hold-harmless” reductions because of their extreme poverty and otherwise unique situation or adopt a “deferred phase-out” plan protecting communities with slow GRT revenue growth.

**Municipal League Computations
Hold-Harmless Distributions as a Percentage
Of General Fund Expenditures FY 11 (Rounded)
For Cities Scheduled to Lose Distributions**

Sunland Park	1.5%
Los Alamos	4.1%
Hobbs	4.6%
Artesia	5.4%
Lovington	6.2%
Rio Rancho	6.6%
Carlsbad	8.1%
Albuquerque	8.6%
Roswell	8.9%
Los Lunas	9.1%
Portales	10.3%
Farmington	10.5%
Raton	10.7%
Las Cruces	10.8%
Gallup	11.7%
Las Vegas	11.8%
Deming	12.1%
Clovis	13.5%
Espanola	14.3%
Santa Fe	15.4%
Silver City	20.0%
Alamogordo	26.6%

HOLD HARMLESS FOOD/MEDICAL DISTRIBUTIONS TO MUNICIPALITIES IN 2010-11

Municipality	2010 Population	Distribution on Medical	Distribution on Food	Total Distributions	2010-2011 General Fund Expenditures	Food/Medical Distributions as % of General Fund
Alamogordo	30,403	\$558,022.02	\$2,235,144.49	\$2,793,166.51	\$10,496,432	26.61%
Albuquerque	545,852	\$12,067,070.43	\$24,613,843.33	\$36,680,913.76	\$425,894,000	8.61%
Angel Fire	1,216	\$2,009.86	\$65,935.24	\$67,945.10	\$3,446,564	1.97%
Anthony	9,360	\$5,379.64	\$7,721.21	\$13,100.85	\$0	0.00%
Artesia	11,301	\$79,377.40	\$1,112,843.38	\$1,192,220.78	\$22,106,972	5.39%
Aztec	6,763	\$57,723.55	\$584,624.92	\$642,348.47	\$7,058,302	9.10%
Bayard	2,328	\$6,652.83	\$75,063.56	\$81,716.39	\$985,483	8.29%
Belen	7,269	\$152,364.99	\$830,228.89	\$982,593.88	\$4,960,068	19.81%
Bernalillo	8,320	\$32,811.72	\$1,194,171.42	\$1,226,983.14	\$5,344,463	22.96%
Bloomfield	8,112	\$20,531.39	\$373,695.11	\$394,226.50	\$7,534,315	5.23%
Bosque Farms	3,904	\$20,832.42	\$43,523.68	\$64,356.10	\$1,971,419	3.28%
Capitan	1,489	\$0.00	\$102,150.47	\$102,150.47	\$1,260,985	8.10%
Carlsbad	26,138	\$462,053.80	\$1,739,680.91	\$2,201,734.71	\$27,208,228	8.09%
Carrizozo	996	\$0.00	\$15,956.50	\$15,956.50	\$569,220	2.80%
Causey	104	\$0.00	\$0.00	\$0.00	\$51,890	0.00%
Chama	1,022	\$424.58	\$139,172.03	\$139,596.61	\$1,063,936	13.12%
Cimarron	1,021	\$0.00	\$0.00	\$0.00	\$1,234,251	0.00%
Clayton	2,980	\$4,109.73	\$160,863.22	\$164,972.95	\$2,843,286	5.80%
Cloudcroft	674	\$1,106.88	\$20,490.49	\$21,597.37	\$844,558	2.56%
Clovis	37,775	\$787,111.44	\$2,138,730.25	\$2,925,841.69	\$21,630,745	13.53%
Columbus	1,664	\$73.21	\$18,027.09	\$18,100.30	\$906,120	2.00%
Corona	172	\$0.00	\$5,424.77	\$5,424.77	\$132,691	4.09%
Corrales	8,329	\$14,200.42	\$17,540.45	\$31,740.87	\$3,439,228	0.92%
Cuba	731	\$0.00	\$89,455.51	\$89,455.51	\$1,314,114	6.81%
Deming	14,855	\$139,527.09	\$975,057.73	\$1,114,584.82	\$9,240,518	12.06%
Des Moines	143	\$0.00	\$0.00	\$0.00	\$142,000	0.00%
Dexter	1,266	\$0.00	\$45,238.56	\$45,238.56	\$854,852	5.29%
Dora	133	\$0.00	\$0.00	\$0.00	\$91,367	0.00%
Eagle Nest	290	\$0.00	\$0.00	\$0.00	\$283,153	0.00%
Edgewood	3,735	\$43,119.32	\$826,679.13	\$869,798.45	\$2,238,587	38.85%
Elephant Butte	1,431	\$1,368.02	\$9,010.17	\$10,378.19	\$709,981	1.46%
Elida	197	\$0.00	\$10,818.50	\$10,818.50	\$283,153	3.82%
Encino	82	\$0.00	\$0.00	\$0.00	\$64,909	0.00%
Espanola	10,224	\$121,070.53	\$1,287,980.75	\$1,409,051.28	\$9,840,008	14.32%
Estancia	1,655	\$0.00	\$49,347.95	\$49,347.95	\$1,035,755	4.76%
Eunice	2,922	\$0.00	\$79,014.09	\$79,014.09	\$3,626,124	2.18%
Farmington	45,877	\$1,407,874.03	\$3,793,429.34	\$5,201,303.37	\$49,332,343	10.54%
Floyd	133	\$0.00	\$0.00	\$0.00	\$65,000	0.00%
Folsom	56	\$0.00	\$0.00	\$0.00	\$53,945	0.00%
Fort Sumner	1,031	\$0.00	\$63,036.41	\$63,036.41	\$545,988	11.55%
Gallup	21,678	\$197,728.11	\$2,811,756.26	\$3,009,484.37	\$25,695,150	11.71%
Grady	107	\$0.00	\$90.11	\$90.11	\$90,768	0.10%
Grants	9,182	\$102,705.13	\$619,188.14	\$721,893.27	\$6,466,004	11.16%
Grenville	38	\$0.00	\$0.00	\$0.00	\$70,000	0.00%
Hagerman	1,257	\$1,087.51	\$23,999.70	\$25,087.21	\$804,093	4.15%
Hatch	1,648	\$0.00	\$147,506.08	\$147,506.08	\$1,369,258	10.77%
Hobbs	34,122	\$170,989.32	\$2,184,570.24	\$2,355,559.56	\$51,008,013	4.62%
Hope	105	\$0.00	\$0.00	\$0.00	\$125,700	0.00%
House	68	\$0.00	\$0.00	\$0.00	\$84,053	0.00%
Hurley	1,297	\$564.17	\$0.00	\$564.17	\$684,149	0.08%
Jal	2,047	\$0.00	\$79,388.21	\$79,388.21	\$1,220,143	6.51%
Jemez Springs	250	\$0.00	\$0.00	\$0.00	\$382,096	0.00%
Lake Arthur	436	\$0.00	\$0.00	\$0.00	\$187,000	0.00%
Las Cruces	97,618	\$2,453,401.16	\$6,100,206.40	\$8,553,607.56	\$79,005,267	10.83%

Municipality	2010 Population	Distribution on Medical	Distribution on Food	Total Distributions	2010-2011 General Fund Expenditures	Food/Medical Distributions as % of General Fund
Las Vegas	13,753	\$291,587.30	\$955,972.76	\$1,247,560.06	\$10,610,375	11.76%
Logan	1,042	\$886.43	\$55,559.02	\$56,445.45	\$888,562	6.35%
Lordsburg	2,797	\$337.50	\$108,754.00	\$109,091.50	\$3,257,875	3.35%
Los Alamos	17,744	\$672,927.64	\$1,115,830.35	\$1,788,757.99	\$44,193,311	4.05%
Los Lunas	14,835	\$147,257.09	\$1,509,705.71	\$1,656,962.80	\$18,240,439	9.08%
Los Ranchos	6,024	\$16,691.28	\$64,070.10	\$80,761.38	\$1,732,559	4.66%
Loving	1,413	\$0.00	\$25,871.88	\$25,871.88	\$824,393	3.14%
Lovington	11,009	\$18,336.43	\$443,830.07	\$462,166.50	\$7,503,536	6.16%
Magdalena	938	-\$814.23	\$22,943.77	\$22,129.54	\$367,944	6.01%
Maxwell	254	\$0.00	\$220.18	\$220.18	\$160,650	0.14%
Melrose	651	\$0.00	\$11,986.26	\$11,986.26	\$363,648	3.30%
Mesilla	2,196	\$30,103.31	\$9,975.66	\$40,078.97	\$1,255,036	3.19%
Milan	3,245	\$0.00	\$141,730.94	\$141,730.94	\$3,144,406	4.51%
Moriarty	1,910	\$61,669.86	\$90,296.37	\$151,966.23	\$2,143,548	7.09%
Mosquero	93	\$0.00	\$39.35	\$39.35	\$145,000	0.03%
Mountainair	928	\$5,656.22	\$446.12	\$6,102.34	\$493,744	1.24%
Pecos	1,392	\$0.00	\$30,463.55	\$30,463.55	\$610,661	4.99%
Peralta	3,660	\$0.00	\$9,623.82	\$9,623.82	\$523,180	1.84%
Portales	12,280	\$37,581.37	\$746,778.43	\$784,359.80	\$7,585,623	10.34%
Questa	1,770	\$0.00	\$46,542.62	\$46,542.62	\$674,408	6.90%
Raton	6,885	\$135,122.60	\$345,973.97	\$481,096.57	\$4,486,702	10.72%
Red River	477	\$374.56	\$57,688.72	\$58,063.28	\$1,517,532	3.83%
Reserve	289	\$0.00	\$20,950.90	\$20,950.90	\$170,500	12.29%
Rio Rancho	87,521	\$688,299.91	\$2,558,437.96	\$3,246,737.87	\$49,019,589	6.62%
Roswell	48,366	\$580,659.52	\$2,665,035.30	\$3,245,694.82	\$36,565,920	8.88%
Roy	234	\$0.00	\$8,839.64	\$8,839.64	\$184,005	4.80%
Ruidoso	8,029	\$0.00	\$623,822.09	\$623,822.09	\$12,250,920	5.09%
Ruidoso Downs	2,815	\$150,843.69	\$261,901.82	\$412,745.51	\$3,245,112	12.72%
San Jon	216	\$0.00	\$0.00	\$0.00	\$103,554	0.00%
San Ysidro	193	\$0.00	\$20,809.79	\$20,809.79	\$275,319	7.56%
Santa Clara	1,686	\$314.32	\$0.00	\$314.32	\$526,009	0.06%
Santa Fe	67,947	\$2,888,544.99	\$7,224,403.72	\$10,112,948.71	\$65,507,700	15.44%
Santa Rosa	2,848	\$71,596.68	\$136,541.24	\$208,137.92	\$2,552,111	8.16%
Silver City	10,315	\$394,104.27	\$1,203,230.69	\$1,597,334.96	\$8,003,841	19.96%
Socorro	9,051	\$37,551.00	\$497,328.30	\$534,879.30	\$5,710,720	9.37%
Springer	1,047	\$3,323.64	\$31,451.28	\$34,774.92	\$445,767	7.80%
Sunland Park	14,106	\$9,332.64	\$64,029.39	\$73,362.03	\$4,957,584	1.48%
T or C	6,475	\$23,965.50	\$459,727.86	\$483,693.36	\$5,244,178	9.22%
Taos	5,716	\$232,565.80	\$1,670,414.18	\$1,902,979.98	\$10,828,045	17.57%
Taos Ski Valley	69	\$303.68	\$0.00	\$303.68	\$1,146,631	0.03%
Tatum	798	\$0.00	\$44,249.44	\$44,249.44	\$1,121,252	3.95%
Texico	1,130	\$0.00	\$18,167.31	\$18,167.31	\$535,938	3.39%
Tijeras	541	\$1,036.37	\$0.00	\$1,036.37	\$1,140,635	0.09%
Tucumcari	5,363	\$10,453.67	\$253,143.23	\$263,596.90	\$5,023,589	5.25%
Tularosa	2,842	\$0.00	\$96,990.47	\$96,990.47	\$1,071,427	9.05%
Vaughn	446	\$0.00	\$16,940.92	\$16,940.92	\$438,362	3.86%
Virden	152	\$0.00	\$0.00	\$0.00	\$66,431	0.00%
Wagon Mound	314	\$0.00	\$1,835.61	\$1,835.61	\$171,396	1.07%
Willard	253	\$0.00	\$0.00	\$0.00	\$147,019	0.00%
Williamsburg	449	\$0.00	\$0.00	\$0.00	\$172,500	0.00%
TOTALS	1,358,323	\$25,421,903.74	\$78,362,376.58	\$103,784,280.32	\$1,125,045,771	9.22%