LFC Requester:	

AGENCY BILL ANALYSIS
2024 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:

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{Analysis must be uploaded as a PDF}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Original X **Amendment** ____
Correction ____ **Substitute** ____

Date Prepared: 1/17/24
Bill No: SB4

Sponsor: Senator Griggs

Short Title: INCREASE OCCUPANCY TAX RATE

Agency Name and Code Number: Tourism - 418

Person Writing Analysis: Victoria Gregg

Phone: 505-795-2176 **Email:** Victoria.Gregg@td.nm.gov

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Senate Bill 4 increases the Occupancy Tax (tax) (Lodger's Tax Act) that municipalities may impose from 5% to 7% of gross taxable rent. Counties rate remains 5%.

SB 4 expands qualified purposes and conditions of the tax. The bill removes the provision that certain counties (non-Class A, tax rate of more than 2%) must dedicate a minimum, prorated portion of the first 3% of taxes collected for tourist-related expenses. If the local government imposes a tax rate greater than 2%, then at least 1/3 (decreased from ½ for Class A counties) of the proceeds must be expended on tourist-related expenses; otherwise, ¼ of the proceeds must be dedicated.

Quality-of-life facilities are eligible projects with the tax proceeds. This includes dedicating revenue for securing bond issue, operating, purchasing, constructing, improving, maintaining, and purchase of property. The tax may not be used for quality-of-life facility promotion, law enforcement and fire protection, nor sanitation services unless they are tourist-related. Quality-of-life facilities are facilities and infrastructure for parks, zoos, and sport or exercise programs.

FISCAL IMPLICATIONS

There are no fiscal implications directly to the tourism department, however there are potentially broad impacts for the tourism industry and local destination marketing organizations throughout the state.

SIGNIFICANT ISSUES

Lodgers' tax allows communities to leverage New Mexico's tourism industry to grow their local economy. By actively engaging in the collection and thoughtful allocation of lodgers' tax, local communities tap into a revenue stream uniquely aimed at enhancing quality of life and driving economic vitality. This tax supports the very backbone of local tourism, providing funding for promotional activities, community events, and vital infrastructure improvements. It helps not only to attract visitors but to enrich the lives of residents through job creation and better public amenities. Communities where tourists want to visit are communities where residents want to live.

In FY22 (the most recent year for which there is data), nearly $70M in lodgers' tax was generated in New Mexico communities. Most communities in New Mexico choose to tax at the 5% rate.

This bill impacts community tourism in two distinct ways. First, by effectively reducing the share of funds that can be used for marketing purposes, communities will have fewer funds with which to promote their destinations, events and attractions. Reducing marketing funding reduces reach and limits the number of visitors, thereby reducing the overall economic impact of tourism in a community.

Furthermore, many communities have partnered with the New Mexico tourism department through the cooperative marketing program. This program currently provides a two-to-one match on marketing funds, which leverages increased efficiency of larger media buys to provide value to partners. For communities which take advantage of the cooperative marketing program (particularly small communities with smaller budgets), a significant portion of cooperative investment comes from lodgers' tax revenues. If the share of funds dedicated for marketing is reduced from 50% to 33%, these communities are not only losing out on these tax revenues, but are also subject to a compounding effect by losing that share in the two-to-one match. Though the bill allows for municipalities to raise lodgers' tax to 7%, potentially offsetting some of this loss, the bill does not mandate this increase. It is expected that many communities will not raise the tax rate, further diminishing potential tax revenue used for marketing.

Second, tourism marketing provides only one piece of a well-rounded tourism strategy. There also needs to be appropriate infrastructure to support tourism. This is why the current statute allows for funds to be used for collecting and administering the tax; for tourist-related facilities, attractions or transportation systems; or for financing capital items associated with tourist-related facilities, attractions or transportation systems. These are essential to ensuring not only that tourism does not put strain on a community, but also provides visitors with reasons to return to the community in the future.

It is important to note that tourism infrastructure often provides direct community benefit to residents as well as visitors. For example, NMTD's Destination Forward tourism infrastructure development program requires that infrastructure projects must be "tourism-related, have public benefit, and contribute to tourism infrastructure development in the area impacted." Many projects that fall into these criteria provide quality-of-life benefits to residents. As currently written, the lodgers' tax statute allows for funds not expended on marketing and promotion to be used for public amenities and infrastructure directly related to tourism, like parks, museums, or even roads leading to tourist sites.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Lodgers' tax funds will continue to support tourism marketing and development, which in turn will provide outside economic activity to grow quality of life improvements within communities.