



Legislative Finance Committee

FINANCE FACTS

Understanding State Financial Policy

State Support for Local Governments

While local governments have a number of locally imposed revenue sources—including property tax, local option gross receipts tax, and other taxes and fees—they also rely on revenues from the state. The state distributes tax revenue to local governments, both directly and through dedicated funds, and offers grants and loans for a range of uses.

Gross Receipts Tax Revenue

Local governments can impose gross receipts taxes on top of those collected by the state with voter approval. Although the use of much of local gross receipts tax revenue is unrestricted, certain increments of the total tax are tied to specific purposes, such as behavioral health services, public transportation, or higher education. Over time, gross receipts tax rates have increased as local governments have taken advantage of optional taxes. Between 2002 and 2013, taxes in some cities rose by as much as 130 percent. Because of local options, the total rate varies throughout the state from 5.25 percent to 8.2583 percent.

In addition to gross receipts taxes levied by local governments, municipalities receive a share of state gross receipts tax revenue. Of the 4.875 percent GRT rate imposed by the state, municipalities receive approximately a quarter of the revenues, or the equivalent of a 1.225 percent tax. Between FY15 and FY23, this averaged about \$500 million a year; however, that number reflects several years of robust oil and gas activity within the boundaries of some cities.

To offset local revenue losses from gross receipts tax deductions for food and medical services, local governments receive “hold harmless” payments from the state. Payments peaked at \$154 million in FY16 but have declined all but one year since then under a phase-out scheduled to be complete by FY30. Smaller municipalities and counties are exempted from the phase-out, and the phase-out has been partially offset some years by adjustments for food and medical inflation.

Capital Outlay

For water systems and other infrastructure upgrades, including public buildings, local governments can apply for grants and loans from the water project, tribal infrastructure, and colonias infrastructure funds, as well as New Mexico Finance Authority’s public projects revolving fund (PPRF). Seventy-five percent of governmental gross receipts tax collections—from the sale of water, sewage and refuse services, and sev-

eral other types of services—is pledged to the authority for revolving fund projects.

Local governments can also get capital outlay through the legislative process. Almost all municipal and county governments, water associations, tribal governments, and other eligible political subdivisions plan for capital outlay projects through the development of an infrastructure capital improvement plan, a five-year planning and budgeting process established to prioritize infrastructure needs based on urgency, quality of life, and economic impact.

While the plans are considered a best practice, the Legislature can fund any local project, regardless of whether it is part of a plan. The Legislature typically allocates funds first to state agency projects, then splits the remainder among the governor, Senate, and House for local projects. The Senate and House typically allot an equal amount to each member.

Dedicated Funds

Local governments also have access to a number of state funds for dedicated purposes. Some of the largest distributions to local governments come from the fire protection fund, law enforcement protection fund, transportation project fund, and the DWI grant fund.

For More Information:

- The website for the Local Government Division of the Department of Finance and Administration is at http://www.nmdfa.state.nm.us/local_government.aspx.
- Taxation and Revenue Department information on local option taxes is available at <https://www.tax.newmexico.gov/governments/municipal-county-governments/local-option-taxes/>
- A *Finance Facts* on local capital outlay planning is at https://www.nmlegis.gov/Entity/LFC/Documents/Finance_Facts/finance%20facts%20cip.pdf.