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Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	2/24/09		
SPONSOR	Martinez	**LAST UPDATED**	3/13/09	**HB**	
SHORT TITLE	County Correctional Facility Taxes			**SB**	552
				ANALYST	Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	**FY10**	**FY11**		
	$0 to $58,011.8	$0 to $60,001.6	Recurring	Counties
	$0 to ($796.5)	$0 to ($823.8)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB376 and SB324

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
New Mexico Corrections Department (NMCD)

SUMMARY

Synopsis of Bill

Senate Bill 552 amends Section 7-20F-1 NMSA 1978 to increase the percentage that may be imposed under the county correctional facility gross receipts tax from one-eighth percent to one-fourth percent. The bill also adds “detention centers” to the list of facilities that the tax may be used. An ordinance imposing the new tax (1/8 percent, two increments of 1/16 percent) is subject to election.

Because no effective date is provided in the bill, its provisions will become effective June 19, 2009, ninety (90) days after the 2009 legislative session adjourns.

FISCAL IMPLICATIONS

The fiscal impact of this bill depends on if and when counties choose to impose the additional increments of this tax. To illustrate the potential fiscal impacts of the bill, the table below shows the amount of revenue that could have been generated by each county if the newly allowed 1/8 percent (0.125%) county correctional facility gross receipts tax had been imposed in FY08. Twenty-five counties already impose the tax (1/8 percent, two 1/16 percent increments) and this estimate assumes all municipalities will impose another 1/8 percent increment of the tax. About $56 million could have been generated by counties if all had fully imposed the tax in FY08.

The table below also indicates the potential general fund revenue loss that would have occurred if all counties had fully imposed this tax in FY08. The food and medical gross receipts tax deductions enacted in 2004 include "hold harmless" provisions to protect local governments from associated revenue losses. In 2007, legislation froze the tax rate at which some local governments are held harmless from the food and medical deductions. However, in smaller counties, the general fund hold harmless distribution grows larger when higher local option taxes are imposed. The table below shows that the general fund revenue loss would have been about $751 thousand in FY08 if all counties had chosen to impose the tax.

Illistration of Potential Revenue from Additional County Local Option Increments
Fiscal Year 2008

County	Potential Revenue: 1/8% County Correctional Facility GRT	Potential General Fund Loss Due to Hold Harmless Distribution: 1/8% County Correctional Facility GRT
Bernalillo	20,015,313	Hold Harmless Rate Frozen
Catron	37,583	(1,351)
Chaves	1,485,290	Hold Harmless Rate Frozen
Cibola	331,456	(38,619)
Colfax	401,527	(19,495)
Curry	908,584	(122,367)
De Baca	27,781	(2,776)
Dona Ana	4,005,797	Hold Harmless Rate Frozen
Eddy	2,783,209	Hold Harmless Rate Frozen
Grant	594,834	(80,343)
Guadalupe	107,345	(8,676)
Harding	38,213	(505)
Hidalgo	100,545	(5,140)
Lea	3,874,853	Hold Harmless Rate Frozen
Lincoln	609,361	(51,516)
Los Alamos	1,684,116	(60,963)
Luna	412,805	(51,332)
McKinley	1,352,266	Hold Harmless Rate Frozen
Mora	36,517	(2,700)
Otero	1,022,659	Hold Harmless Rate Frozen
Quay	193,598	(14,676)
Rio Arriba	699,461	(68,869)
Roosevelt	295,187	(31,787)
San Juan	5,294,667	Hold Harmless Rate Frozen
San Miguel	405,466	(54,275)
Sandoval	2,056,857	Hold Harmless Rate Frozen
Santa Fe	4,833,266	Hold Harmless Rate Frozen
Sierra	189,559	(10,772)
Socorro	219,166	(28,956)
Taos	725,363	(80,543)
Torrance	216,654	(7,916)
Union	230,651	(7,201)
Valencia	907,896	Hold Harmless Rate Frozen
Total	**$56,097,847**	**($750,776)**

Source: Reports 500 and Reports 80 from TRD

SIGNIFICANT ISSUES

New Mexico's municipalities and counties are authorized to impose over 4 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). On average, a local option gross receipts tax of about 2.16 percent is actually imposed by local governments statewide. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 7.16 percent. Before enacting additional gross receipts taxes, local governments should carefully weigh the costs and benefits. For example, there are inherent economic inefficiencies in the GRT, in particular the "pyramiding" of tax on sales between businesses. These losses in economic efficiency mean that the cost of the tax to the economy exceeds the amount of tax revenue collected, and the excess cost rises rapidly as tax rates are increased. Careful consideration should therefore be given to any proposed increases in authorized local option rates to ensure that the benefit to be derived from the tax outweighs the cost of its enactment.

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

RELATIONSHIP

Senate Bill 552 relates to HB376 and SB324 which also increase the local option taxes (capital outlay gross receipts tax and municipal environmental services gross receipts tax, respectively).

OTHER SUBSTANTIVE ISSUES

The effective date of this bill should be July 1, or January 1, to be consistent with the effective dates for gross receipts tax rates.

NMCD:
The bill has no real impact on the Corrections Department. The taxes are used to build or expand county jails and county detention facilities, not to the Department or its prisons.

BLG/mt

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** *revenue should be adequate to fund government services.*
2. ***Efficiency:*** *tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.*
3. ***Equity****: taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.*
4. ***Simplicity***: *taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.*
5. ***Accountability/Transparency:*** *Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.*

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc