

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 7, 2025

Bill: HB-292 **Sponsor:** Representatives Elaine Sena Cortez, Jonathan A. Henry, Mark B. Murphy, Senator Jay C. Block, and Representative John Block

Short Title: All Cities & Counties Fund

Description: This bill creates the All Cities and Counties Fund within the state treasury and requires the Taxation and Revenue Department (Tax & Rev) to calculate an amount to be transferred from the fund to each municipality and county based on a formula provided. Tax & Rev is to certify the amounts to be transferred to each municipality and county to the State Treasurer on October 1 of each year, beginning October 1, 2026. A new section is also added to the Tax Administration Act to require a distribution be made to the All Cities and Counties Fund in an amount equal to 8% of the net receipts attributable to the gross receipts tax distributable to the general fund.

Effective Date: July 1, 2025

Taxation and Revenue Department Analyst: Pedro Clavijo

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	--	\$241,300	\$249,500	\$256,600	R	All Cities and Counties Fund – to Municipalities
--	--	\$112,100	\$115,900	\$119,200	R	All Cities and Counties Fund – to Counties
--	--	(\$353,400)	(\$365,400)	(\$375,800)	R	General Fund

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: This bill redirects 8% of the state share of gross receipts tax (GRT) revenue into the newly-created All Cities and Counties Fund, and then provides for distribution of that amount to municipalities and counties. The analysis assumes that the bill redirects 8% of the state GRT distributed to the general fund after making all other statutory distributions. Tax & Rev applied the proposed formulas to determine the revenue gain for municipalities and counties from the new distribution. The analysis assumes no revenue impacts to tribal governments (see Policy Issues). The estimated revenue impact is based on the annual estimates of the resident population for incorporated places in New Mexico for 2023 from the United States Census Bureau Population Estimates Program,¹ the December 2024 Consensus Revenue Estimating Group (CREG) forecasting for net gross receipts tax (GRT) to the general fund, and local government GRT distribution reports from Tax & Rev’s report, RP-500.

Policy Issues: State revenue sharing with local governments will strengthen local governments by providing additional revenue. However, the diversity of special funds and distributions across the Tax Administration Act is becoming intricate, leading to a more complex tax management process. The proliferation of new funds and distributions implies a fragmentation of the existing boundaries that determine service obligations and the parameters for intergovernmental relationships between the State and local governments.

¹ <https://www.census.gov/data/tables/time-series/demo/popest/2020s-total-cities-and-towns.html>
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The state General Fund currently makes a number of significant transfers to local governments. Under Section 7-1-6.4 NMSA 1978, state gross receipts tax revenues are already shared with all municipalities, in an amount equal to 1.225% of the 4.875% state gross receipts tax rate, (i.e., with respect to the overall 4.875% rate, 1.255% is transferred to the municipalities, and 3.620% is retained by the state.) Section 7-1-6.2 NMSA 1978 provides for a distribution to the Small Cities Assistance Fund, and Section 7-1-6.5 NMSA 1978 provides a distribution to the Small Counties Assistance Fund; Section 7-1-6.16 provides for a county equalization distribution; and pursuant to Sections 7-1-6.46 and 7-1-6.47 NMSA 1978, distributions are made to certain municipalities and counties, respectively, to offset the cost of food and health care practitioner deductions. In addition, local governments have their own taxing authority to impose general and special increments of local option gross receipts and compensating taxes. Additional distributions may be made, as authorized by local governments and the State Board of Finance, to other special taxing districts and for local economic development purposes.

Simplicity and fairness are important considerations in making tax policy, and the proliferation of general and special distributions to local governments goes against those principles. Allowing greatly varying local government tax rates decreases simplicity and makes compliance harder for taxpayers; allowing for a centralized system of revenue distribution, as this bill does, results in greater simplicity, but only if it replaces the competing, and less simple, tax system, and not when it is added on to it. Tax & Rev recommends that a bill of this nature be accompanied by a repeal of other statutes distributing general fund revenues to local governments.

Furthermore, administering multiple distributions on this scale comes with challenges, including:

- 1) A high number of distributions and funds that are burdensome and conflicting, requiring Tax & Rev to expend resources inefficiently. Streamlining the number of funds and distributions helps reduce the administrative costs and the burden for local governments.
- 2) Duplication and overlap of different funds and distributions aimed at attaining the same purpose deplete the General Fund's resources and reduce effectiveness of these distributions.
- 3) Increasing the number of distributions to multiple funds reduces Tax & Rev's capacity for oversight and accountability.

The bill proposes distributing funds to municipalities and counties but does not specify whether tribal governments benefit from this new distribution. The formulas proposed in the bill use data on state population and county populations, so tribal residents, representing nearly 10.9% of the state's entire population, are used to compute the distributions, benefiting county finances without any corresponding benefit to tribal governments, who also provide services to their residents. Furthermore, tribal governments that share borders with some local governments are not accounted for in the distributions.

New Mexico's tax code is out of line with most states in that more complex distributions are made through the tax code. The more complex the tax code's distributions the costlier it is for Tax & Rev to maintain the GenTax system and the more risk is involved in programming changes. By employing both Tax & Rev and the state treasurer to make financial distributions to all municipalities and counties, both agencies face added administrative burdens and an inefficiency is created statewide.

Technical Issues: Tax & Rev suggests a more precise definition for the source for the current population, such as the decennial census released every 10 years. Other population estimates are released from the United States Census Bureau, such as the source used for the fiscal impact or from the American Community Survey 1-year, 3-year and 5-year estimates. This will provide clarity in the application of this distribution. Annual estimates are released at various times of the year and given the bill's timeline for the distribution calculations could lead to using different sources for the population estimates every

year.

The annual October 1 deadline for Tax & Rev to certify to the state treasurer the transfer amounts would most likely occur before the annual General Fund audit will be complete. The All Cities and Counties Fund could potentially be adjusted with audit release. Tax & Rev suggests an annual deadline of February 1 for Tax & Rev to certify, with the deadline for the state treasurer to distribute by March 1.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev will need to update reports including the RP-500 and make information system changes to distribute this new distribution of GRT revenue. Implementing this bill will have an impact on Tax & Rev’s Information Technology Division (ITD) of approximately 300 hours, or about two months and \$69,000 of contractual cost. Additionally, Tax & Rev’s Administration Services Division (ASD) will require two existing FTEs and 100 hours split between pay-band 70 and 80 positions to test the new distribution and certify the transfers. The GenTax system’s general ledger and reporting will need to be updated for the new distribution. Both ASD staff and the economists in the Office of the Secretary (OOS) will annually need to calculate and certify the transfers to the state treasurer. The economists will need to calculate for each county “equalized gross receipts tax revenue” used in the formula, pull the most recent population estimates and then calculate the distributions amounts for each county and municipality. This will be a recurring staff workload impact for ASD and the OOS.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2025	FY2026	FY2027	3 Year Total Cost		
--	\$6.3	--	\$6.3	NR	Tax & Rev’s - ASD – Staff workload
--	--	\$2.1	\$2.1	R	Tax & Rev’s – OOS – Staff workload
\$69	--	--	\$69	NR	Tax & Rev’s – ITD - Contractual costs

* In thousands of dollars. Parentheses () indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

Related Bills: Duplicate of SB243, 2025 Regular Session, Similar to HB-440 2023 Regular Session, and HB-54 2024 Regular Session,